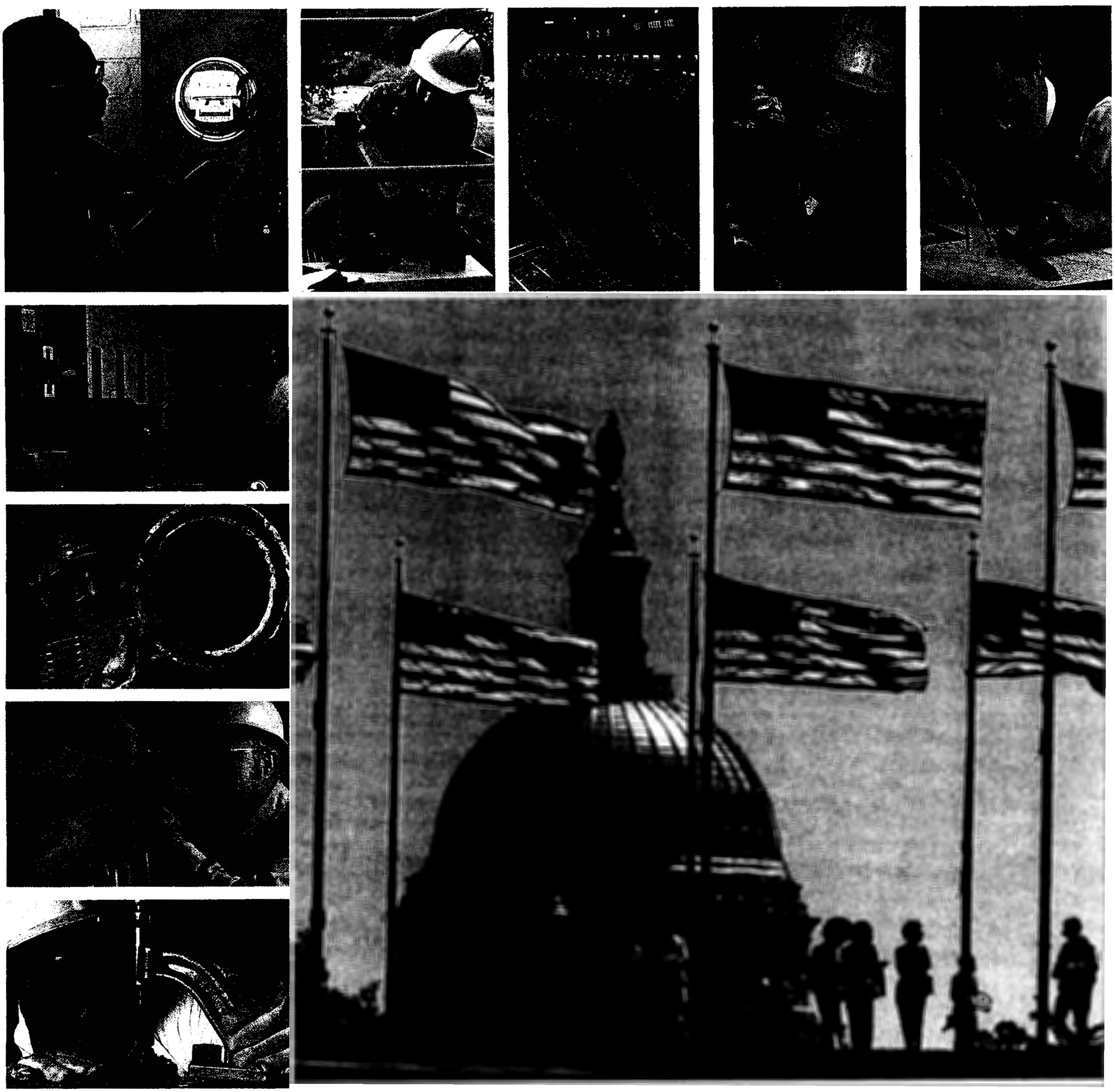
Potomac Electric Power Company

Annual Report 1981



Employees pictured (counterclockwise from right): Compton Richards, Maria Saillant, Fred Sackett, Jill McDonagh, Joe Finazzo, Noni Roan, Bernard Gibson, Sylvia Roberts, Robert Hill, Richard Lukowsky, Terry Brawner.

Our cover features eleven of PEPCO's 54(highly skilled employees who provide reliabl(and efficient electric service to the Nation's Capital. Efficiency means more than just working hard. It means working smart, to get most out of every dollar of investment. It mea finding new and innovative ways to control c(today as well as in the future.

PEPCO's investors have provided the ca| for over $2.5 billion in assets to bring our onl' product, electricity, to our customers. PEPC(people are working to use those assets as productively as possible to provide custom(high quality service at the lowest price, whil(the same time striving to earn a fair return fo you. This Annual Report describes our progress in 1981 toward these dual goals ar our plans for the future.

Our Service Area

PEPCO provides electric service to one of the nation's most unique metropolitan areas—unique not only because it includes the capital city of the United States, but also because of its relative stability and economic vitality.

The Washington area is economically strong and stable. The local economy has achieved a healthy mix between private and public sector employment. Three of every four jobs in our service area are outside the federal government.

The area also has virtually no heavy industry. Instead, it is a center for trade associations and law firms; corporate headquarters; high-technology computer, telecommunications and research firms, and educational, professional and service institutions. These organizations are attracted to the area by its quality work force, its proximity to the federal government and its position in the thriving Baltimore-Washington "Common Market"—so-called because well-developed transportation ties link Washington, D.C. and the harbor city of Baltimore.

With this mix of government and non-industrial private employment, key characteristics of the Washington economy are stability and substantial insulation from national economic cycles. In the short term, this lessens the impact of these cycles on PEPCO and our customers. In the long term, this stability assists in planning to meet future demand for electricity.

Our customers, as a whole, enjoy unusually high incomes. In 1980, the average after-tax household income in the Washington metropolitan area was $29,648, the highest of any major metropolitan area in the country. While per capita income in all three jurisdictions PEPCO serves exceeds the national average by a substantial margin, average electric usage and electric bills are close to national averages. The Washington area residential customer thus pays a smaller percentage of after-tax disposable income for electricity than the national average.

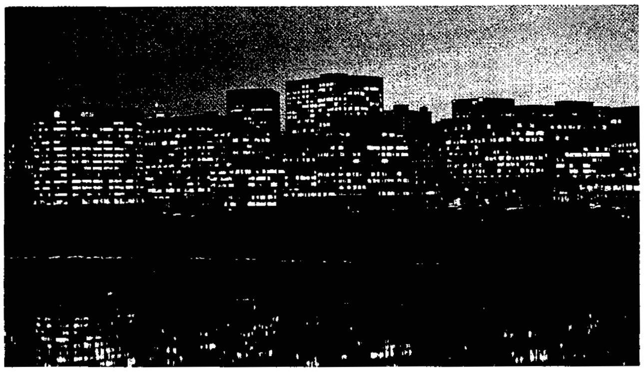
The Washington area is experiencing dynamic economic growth, without substantial growth in demand for energy. Over the last decade, metropolitan Washington has undergone development and redevelopment that substantially transformed many of its business and residential areas.

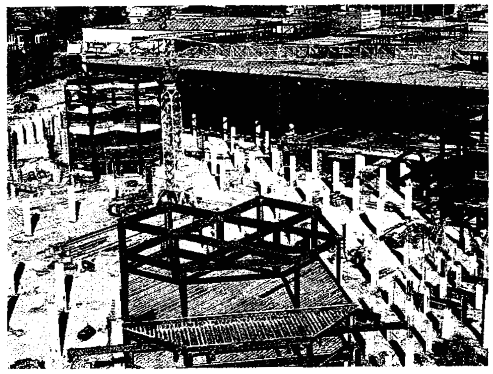
Although sharply reduced population growth trends and high interest rates have dampened residential expansion, the development trend continues in the 1980s. Metro, an all-electric rapid transit system already 40% complete, links major communities in the city and suburbs. As Metro stations open in many outlying areas, nearby business districts expand, offering more commercial office space and retail establishments. Demand for commercial office space remains high. Although about 7.2 million square feet of new space were completed in 1980, office vacancy rates remain below 3%.

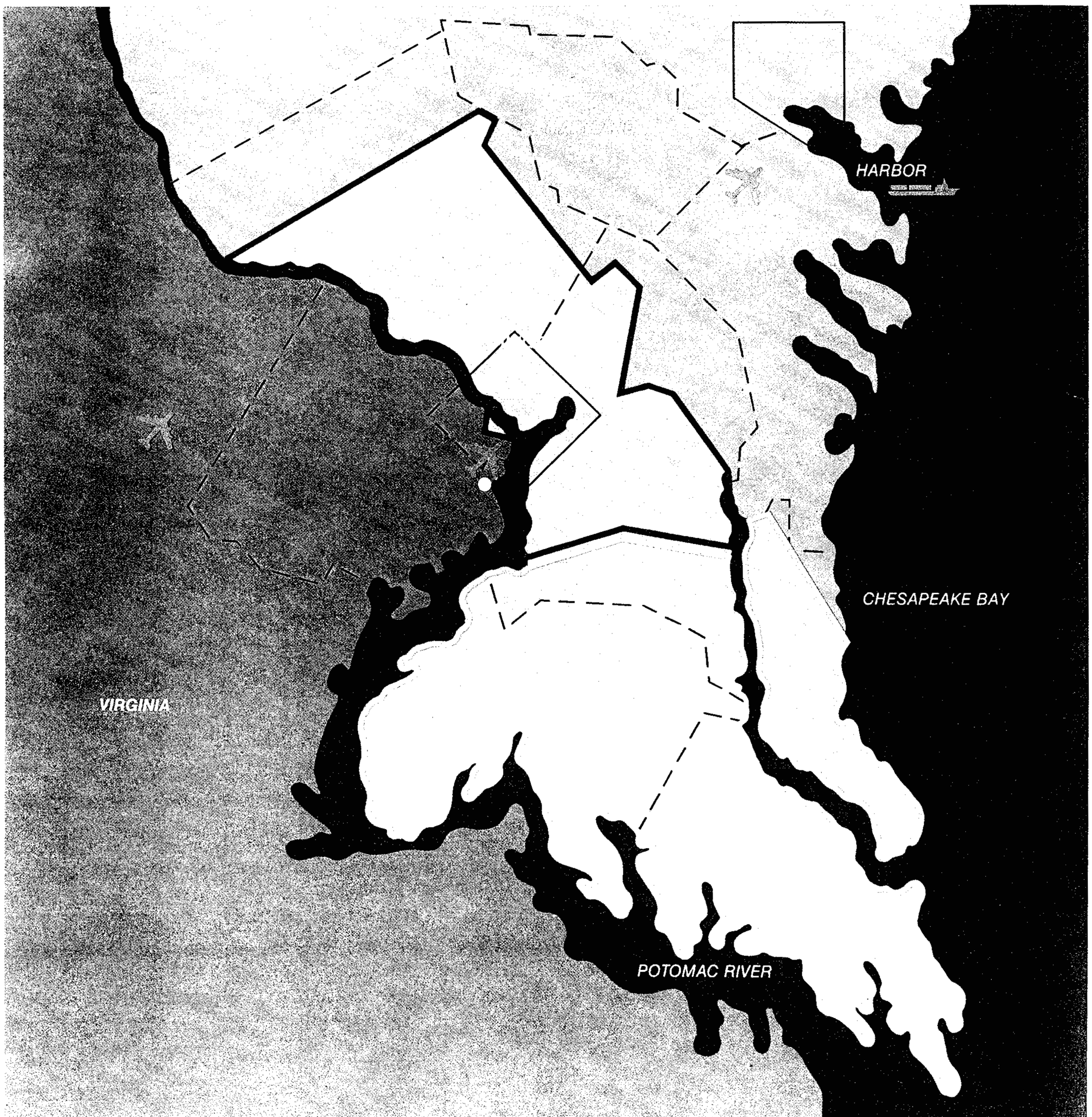
Two major construction projects in downtown Washington characterize the high-quality development in the area. First is a 760,000-square-foot Convention Center in the heart of downtown Washington, scheduled for completion late in 1982. Second is a Congressionally-chartered redevelopment of Washington's historic Pennsylvania Avenue, leading from the U.S. Capitol to the White House. Encompassing one square mile, the development area will include 6.8 million square feet of office space, as well as substantial new retail, hotel and residential buildings.

Despite continued economic growth in the Washington area, peak demand for energy is projected to grow relatively slowly at 1% to 2% annually. As a result, the Company has a relatively limited need for construction of new generating facilities. At today's extremely high costs for financing and building new electric supply facilities, this reduced level of new plant investment is a major advantage to investors and customers.

Scenes from PEPCO's service area (Above, left to right): The United States Supreme Court building; a research scientist at the Gillette Research Institute, one of many high technology firms located in the metropolitan area; the night lights of Rosslyn, Virginia; Washington's new convention center under construction in the District of Columbia; the District's Robert F. Kennedy Stadium, home of the Washington Redskins.







PEPCO Retail Service Area | Southern Maryland Electric Cooperative, Inc. (PEPCO supplies all electric power at wholesale) | Major Airports | O Plants

1981 Highlights

Financial		1981	1980	Increase	% Increase
Operating Revenue (000's)	$	**1,000,510**	856,058	144,452	16.9
Operating Expenses (000's)	$	**820,536**	685,163	135,373	19.8
Net Income (000's)	$	**109,672**	104,085	5,587	5.4
Earnings for Common Stock (000's)	$	**93,297**	88,774	4,523	5.1
Earnings Per Common Share	$	**2.14**	2.10	.04	1.9
Average Common Shares Outstanding (000's)		**43,650**	42,243	1,407	3.3
Cash Dividends Per Common Share	$	**1.58**	1.46	.12	8.2

Operating					
Installed Generating Capability (Kilowatts—Net)		**5,037,000**	5,000,000	37,000	.7
60-Minute Peak Load (Kilowatts—Net)		**4,152,000**	4,142,000	10,000	.2
Energy Sales (000's Kilowatt Hours)		**16,769,496**	16,557,326	212,170	1.3
Investment in Property and Plant (000's)	$	**2,732,536**	2,555,658	176,878	6.9
Number of Electric Service Customers		**522,375**	507,387	14,988	3.0
Residential Average:					
Kilowatt Hours Used		**8790**	8971	(181)	(2.0)
Price Per Kilowatt Hour		**6.20¢**	5.35¢	.85¢	15.9
Annual Bill Including Fuel Charges	$	**545.04**	480.08	64.96	13.5

Contents

Annual Meeting

The annual meeting of shareholders will be held at the Hyatt Regency Hotel, 400 New Jersey Avenue, N.W., Washington, D.C. on Wednesday, April 28, 1982 at 11:00 a.m.

To Our Shareholders

Our earnings per share for 1981 increased to $2.14 from the $2.10 earned in 1980. We maintained the 21% gain in per-share earnings achieved in 1980 and, with the additional 4¢ earned in 1981, made some further advancement toward our goal of a reasonable return for our shareholders. The earnings improvement was attained despite high interest rates and with minimal rate increases.

For the first quarter of 1982 the quarterly common stock dividend was increased by 5%, from 40¢ to 42¢ per share, the sixth increase since the beginning of 1977. The new annual rate of $1.68 per share is a 45% increase from the $1.16 annual rate for 1976.

In 1981, the nation's economy was buffeted by dramatic, sustained increases in the cost of capital. The unprecedented cost of capital is particularly damaging to electric utilities, the nation's most capital-intensive industry. It is imperative that regulators recognize these increased costs in a timely manner. If utilities are to fulfill their service obligations to their customers they must have an opportunity to earn a return on equity which is competitive with the return investors are demanding and receiving in today's capital markets.

Your management is committed to the aggressive pursuit of a reasonable return—a return that will enable us to continue reliable service to our customers and at the same time provide increased earnings and dividends to compensate you adequately for your investment. Our business strategies are designed to deal effectively with the challenges confronting us in the current economic environment and to position us to make continued progress toward achievement of an adequate return.

First, the measures PEPCO adopted in the 1970s to combat inflation serve us well in the continuing inflationary climate of the 80s.

We reduced construction spending drastically after the 1973 oil embargo, increased our reliance on lower cost coal, and emphasized sound planning and tight budgetary controls to hold down costs.

In 1981, we completed the restructuring of our construction program, placing in service the last new generating unit we expect to need for a decade. We continue to rely on coal-fired generation for virtually all the energy supplied to our customers. These factors have helped mitigate the impact of the higher capital costs and have enabled us to keep the increases in prices to customers below the general rate of inflation.

Second, your management remains determined to conserve capital, consistent with our public service responsibility.

The cost of financing new assets today exceeds the return we earn on the investment. While this situation persists, it is a key strategy to discharge our obligations in a manner requiring minimal capital outlay. Today the ratio of our construction expenditures to existing plant investment is low relative to other companies in the industry. The rate of growth in energy demand in the Washington area remains low, and we are actively pursuing energy use management programs to ensure the continuation of moderate growth and lower capital requirements.

Third, we are providing for maximum flexibility in our energy planning.

Almost a decade after the upheaval caused by the 1973 oil embargo, the nation's energy economy is still in a state of flux, with unpredictable fuel prices and with the promise of emerging new technologies. We now forecast that we will not require new generating facilities until 1993. However, we are proceeding with design and preliminary engineering for the next coal-fired generating unit, in the 300-400 megawatt range, so that it could be accelerated and brought on line as early as the end of the 80s. With this flexibility in our construction program and the ability to provide virtually all of our customers' energy requirements with coal, we are well situated to adjust our plan to meet changing circumstances and opportunities.

Fourth, we continue to seek further improvement in the productive use of our human and capital resources.

This Annual Report highlights some of our employees, recognizing that the dedication and creativity of our employees is our most important resource. We are emphasizing training, management development and advanced systems and methods to ensure continued efficient performance.

Maintaining the productivity of our capital assets is vitally important. The seasonal nature of our load, with demand for electricity much higher in the summer, provides opportunities to improve capital productivity by increasing the use of our plants during the winter. For example, in 1982 we are expanding our programs to develop greater winter demand for electricity by encouraging wider use of the energy efficient heat pump. We also have carefully planned programs to investigate new technologies and opportunities to improve the use and deployment of our resources.

Finally, we are vigorously pursuing the rate increases required to recognize higher costs of service, including the cost of capital determined in the financial markets.

The rate increases we received in 1981 do not reflect the high capital costs now being experienced. In Maryland and Virginia, where modest increases were received in the first half of 1981, we have returned to regulators with new increase requests based on a realistic recognition of the cost of capital. In the District of Columbia, we received a $23 million rate increase effective the last day of 1981, based on a 1980 test year. We will file a new rate request in the District in March 1982.

The increases in capital costs experienced in 1980 and 1981 have been substantial and sustained. The higher returns being allowed by regulatory commissions across the country provide a hopeful sign that regulators are beginning to recognize the marked increase in this major component in the cost of providing service.

The Washington metropolitan area we serve is affluent and relatively stable. Over recent years, the increase in prices to our customers has been below the general rate of inflation. Our programs for controlling plant and operating expenditures and our shift to burning more coal have reduced, and will continue to moderate, the need for rate increases. These factors give us confidence that we can continue to make progress toward our goal of a fair rate of return.

Looking ahead, the strategies and flexibilities outlined above are designed to enable us to respond to the economic environment and to shape the future role of electric energy in our marketplace. All of us share a vital interest in the current national effort to reverse the trends in inflation and interest rates and to revitalize the country's economy. Success in this effort is crucial to the financial health of our industry and to continued reliable and economical service to our customers.

As the economy is revitalized, both our national energy policies and the needs of the country point to a bright future for the electric utility industry. With improvement of productive capacity and growth in the national output as we move from recession into periods of expansion, electricity will provide an ever larger percentage of the energy needs of this nation.

Your Company is well situated to play a major role as these events unfold. We are optimistic about the opportunities for financial improvement for your Company and for the future of the electric utility industry as a vital component of economic progress.

W Reid Thompson

W. Reid Thompson
Chairman of the Board
President.

February 22, 1982

Results of Operations

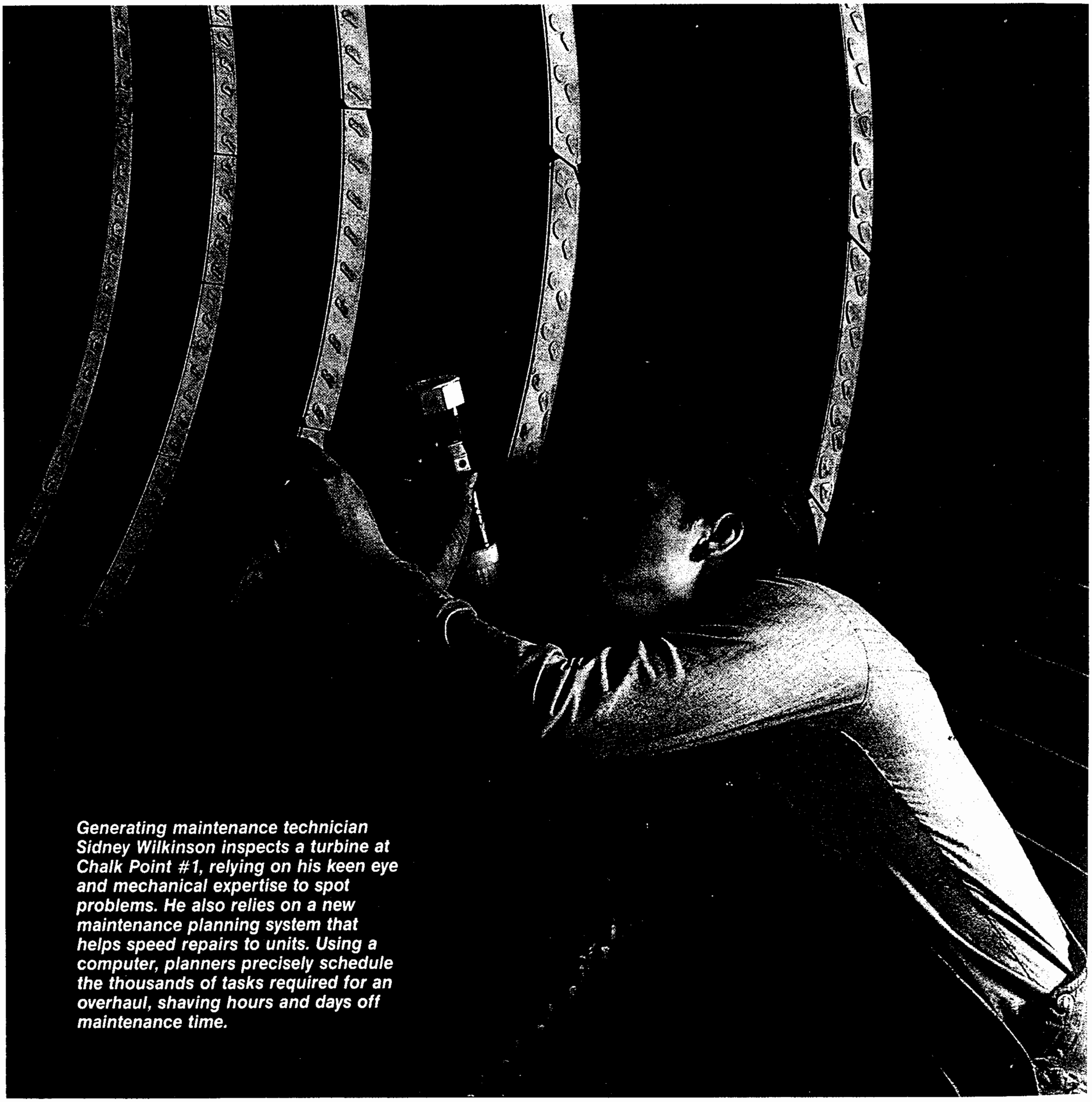
Stock Market Information

1981	High	Low
1st Quarter	13¼	11⅞
2nd Quarter	15	12¼
3rd Quarter	15⅜	12¾
4th Quarter	15½	13⅛
(Close 14½)		

Shareholders at December 31, 1981: 117,465.

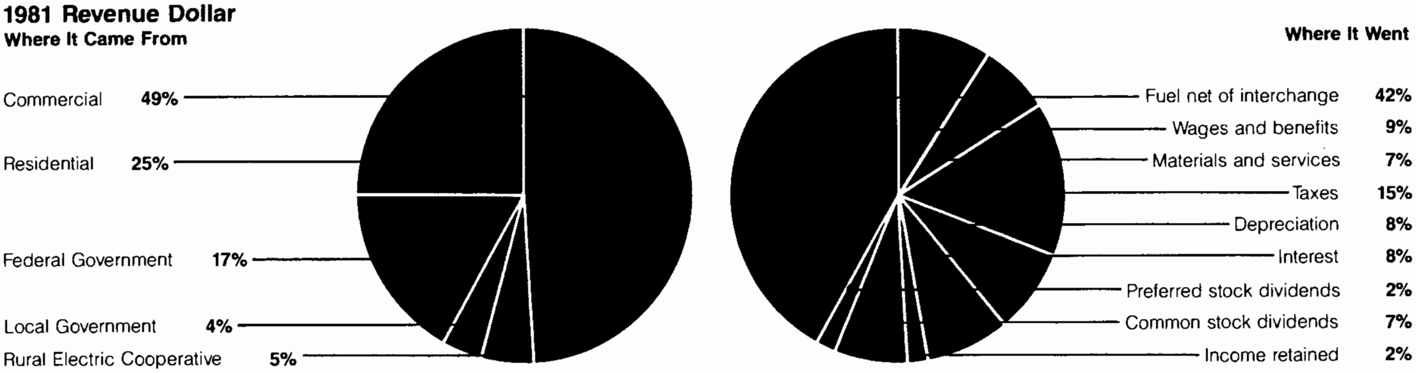
1980	High	Low
1st Quarter	12	10
2nd Quarter	14⅛	10⅜
3rd Quarter	14	12⅛
4th Quarter	13⅞	11
(Close 12⅜)		

Shareholders at December 31, 1980: 120,497.



Generating maintenance technician Sidney Wilkinson inspects a turbine at Chalk Point #1, relying on his keen eye and mechanical expertise to spot problems. He also relies on a new maintenance planning system that helps speed repairs to units. Using a computer, planners precisely schedule the thousands of tasks required for an overhaul, shaving hours and days off maintenance time.

1981 Revenue Dollar



In the face of continued high inflation and unprecedented interest rates, PEPCO management has worked to contain rising costs and to obtain the needed increases in rates that will be critical to continued progress in 1982. With only limited rate increases in 1981, we still made some progress over the record earnings achieved in 1980.

Earnings for common stock were $93.3 million in 1981, up 5.1% from $88.8 million in 1980. On a per-share basis, earnings were $2.14, an increase of 1.9% from $2.10 in 1980.

Dividends

Dividends per share were $1.58 for 1981, as compared with $1.46 for 1980, an increase of 8.2%. This reflects the 2¢ increase in quarterly dividends in the second quarter of 1981 and the 3¢ increase in the third quarter of 1980. At year-end 1981, the annualized rate was $1.60 per share. In January 1982, the quarterly dividend was increased by 5%, from 40¢ to 42¢, an annualized rate of $1.68.

Revenue

In 1981, PEPCO's operating revenue totalled $1.0 billion, an increase of 16.9% over 1980 revenue of $856.1 million. Most of this increase was the result of higher customer billings under PEPCO's fuel rates.

Kilowatt hour sales of electricity increased only 1.3% in 1981. In 1980, record-breaking hot summer weather led to a 5.6% increase in use of electricity, as compared with 1979. Measured on the basis of cooling degree hours, 1981 summer weather was 15.9% milder than the summer of 1980.

The average 1981 price per kilowatt hour was 5.89¢, an increase of 15.7% over 1980. The increase reflects higher base rates approved in mid-1980 and 1981 and higher costs of fuel.

Operating Expenses

Total 1981 operating expenses were $820.5 million, an increase of 19.8% compared to 1980 expenses of $685.2 million.

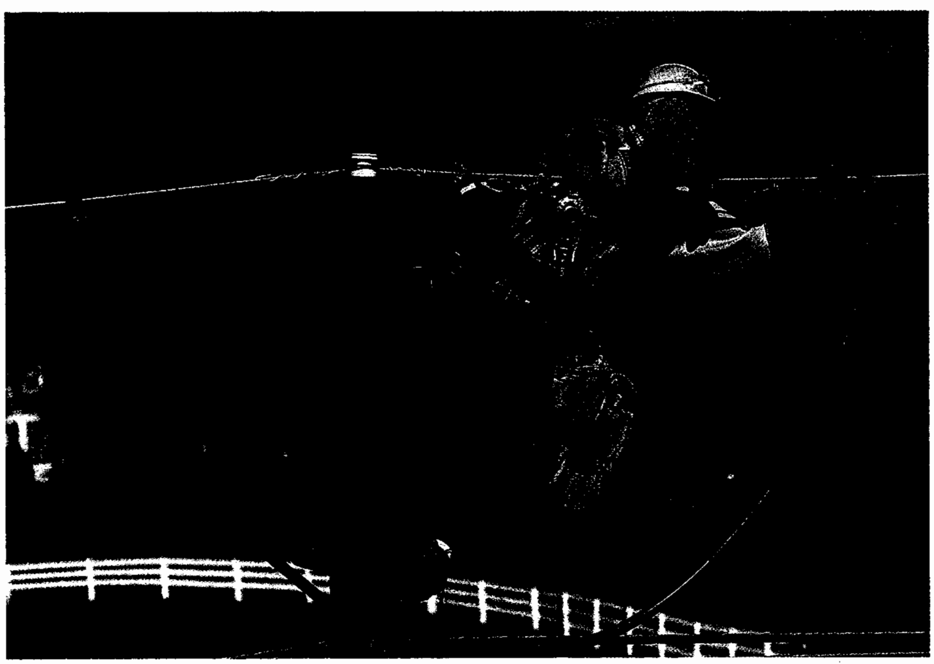
Fuel and Interchange. Net fuel and interchange expense was $420.9 million, an increase of $121.9 million over 1980.

This cost increased for two primary reasons. Unit fuel prices were up 11.9%, and PEPCO's exports of power to other utilities were down. In the past, substantial quantities of electricity generated by PEPCO were delivered to other utilities in the Pennsylvania - New Jersey - Maryland Interconnection (PJM), and credits from these deliveries offset some of the cost of fuel to generate energy for our own customers. Because supply conditions changed within PJM in 1981, PEPCO was a net purchaser of electricity for the year.

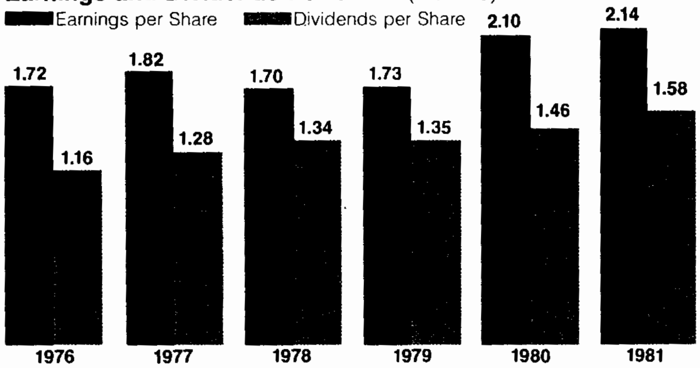
Fuel costs, before adding the costs of interchange transactions, totalled $348.9 million in 1981, compared to $358.6 million in 1980. This was a decrease of 2.7%, with a 13.8% decrease in generation. The net cost of interchange transactions was $72.0 million; in 1980, the Company had net credits of $59.6 million from such transactions.

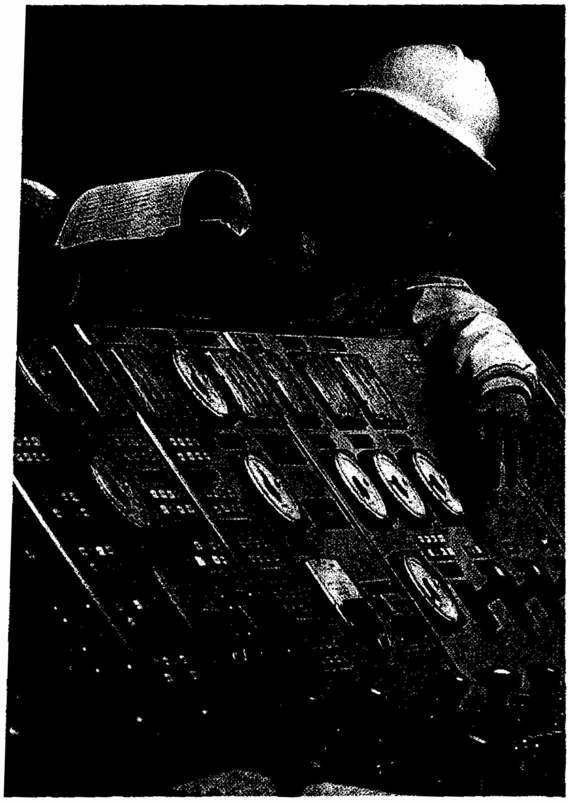
The Fuels section of this report describes in detail 1981 fuel costs and PEPCO's imports of power from other utilities.

It takes a combination of skill, strength and concentration to complete electric line work efficiently and safely. Overhead lead line mechanic Carl Franck has been doing the job for nearly 35 years.



Earnings and Dividends Per Share (Dollars)





Mechanical engineer Thai Phan checks gauges in the control room at the Morgantown generating station. His job is to analyze plant operating data and recommend ways to improve efficiency.

Other Operation and Maintenance Expenses. Other operation and maintenance expenses totalled $169.9 million, an increase of 7.7% over 1980.

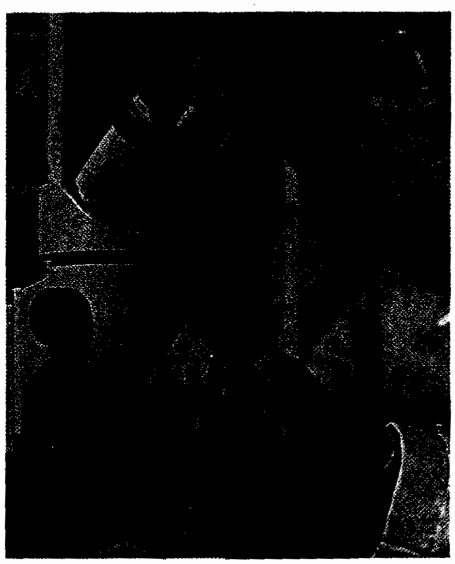
Depreciation and Taxes. Depreciation and amortization expense was up 5.0% in 1981 over 1980, reflecting increases in plant investment and increased depreciation rates authorized during 1980 in the District of Columbia and Virginia. Total federal and local taxes were $151.6 million, a decrease of 1.6%.

Operating expenses are discussed in detail in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this report, on page 34.

Interest and Preferred and Preference Dividends

Interest charges for 1981 increased by $7.9 million, or 10.7%, over 1980, as our outstanding debt increased and interest rates climbed to record levels and remained there for most of 1981.

Preferred and preference stock dividends increased $1.1 million, or 6.9%, reflecting a full year's dividend payment on the $17.5 million private placement of 8¾% preferred stock made in September 1980.



Environmental technician Jean Marie Fulton identifies a species of fish collected near the Chalk Point generating station. As part of an environmental monitoring program, PEPCO studies fish population in waterways near our plants.

Rates

PEPCO's 1981 revenues reflect only limited approval to increase retail rates in Maryland and Virginia during the year. These were "make whole" increases based on updating prior rate orders to more recent test periods. They did not provide for the sharply increased cost of capital. New District of Columbia rates became effective on the last day of the year.

PEPCO has filed major rate requests for its Maryland and Virginia business. In seeking higher rates, PEPCO is asking regulators to approve substantially higher returns to cover dramatic increases in the cost of capital over the last several years.

Over recent years, prices to our customers have risen less than inflation overall, while earnings and dividends for our shareholders have not kept up with inflation. Higher rates—which cover today's cost of capital, including a fair return to the shareholder—are essential to balance the interests of investors and customers.

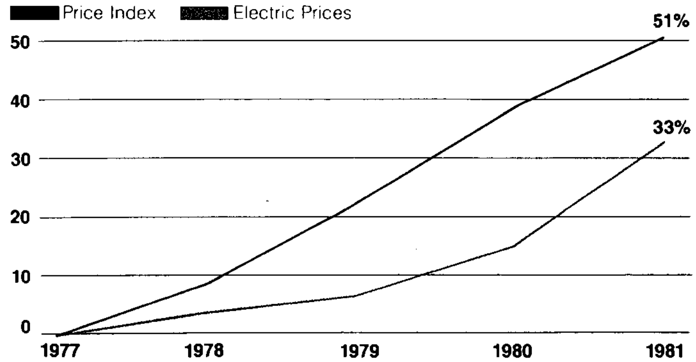
District of Columbia

On December 23, 1981, PEPCO received a decision from the District of Columbia Public Service Commission on the Company's request for a $37.1 million, 9.6% increase in rates. The Commission authorized a $23.3 million, 6% increase in rates effective December 31, 1981. The order was based on a 10.09% return on a calendar year 1980 rate base and a 14.25% return on common equity. The request was for a 10.6% return on rate base and a 15.5% return on equity.

Maryland

On April 29, 1981, the Maryland Public Service Commission granted

% Increase Consumer Price Index vs. Retail Electric Prices



PEPCO an $11.4 million, 2.7% increase in rates. The increase was based on the 9.52% rate of return the Commission authorized in PEPCO's 1980 general rate case. It was granted under Maryland's "make whole" statute, which provided expedited 90-day review in cases that update the Commission's latest general rate order to a more recent period. The Maryland "make whole" statute has now been amended so that PEPCO and the state's other major electric utilities may no longer seek increases through this process.

On September 29, 1981, PEPCO filed for a $95.5 million, 18.9% increase in rates in Maryland. A decision is expected in late April. In this case, the Company is asking the Commission to approve:

- An 11.73% rate of return on rate base and a 17.75% return on common equity. The request is based on a December 31, 1981 test year.
- Inclusion of all construction work in progress in the rate base, so that PEPCO can earn a current cash return on projects under construction. This is the practice PEPCO followed from 1947 until the Commission changed the practice with respect to property acquired after September 1980.
- An increase in PEPCO's average depreciation rate from 3.2% to 3.8%.
- A $10 million allowance to combat earnings attrition. Without the allowance, rates based on 1981 costs will not fully cover PEPCO's cost of service when they become effective in 1982.

Virginia

On September 3, 1981, PEPCO received approval from the Virginia State Corporation Commission to increase rates by $651,000, or 3.5%, annually. This "make whole" type increase was the result of the Commission's 1980 Annual Financial Operating Review of PEPCO, and PEPCO's related request for a $696,000 increase in rates.

In December 1981, PEPCO requested a $3.2 million, 14.6% increase in Virginia rates, based upon results for the year 1981 and the same rate of return the Company is seeking in Maryland. A decision is expected in May 1982.

Wholesale Rates

The Company is in the final year of a three-year contract with its only wholesale customer, Southern Maryland Electric Cooperative, Inc. Under the contract, rates increased $4.6 million on January 1, 1980; $1.9 million on January 1, 1981, and $1.0 million on January 1, 1982. PEPCO has begun negotiations with SMECO for service in 1983 and thereafter.

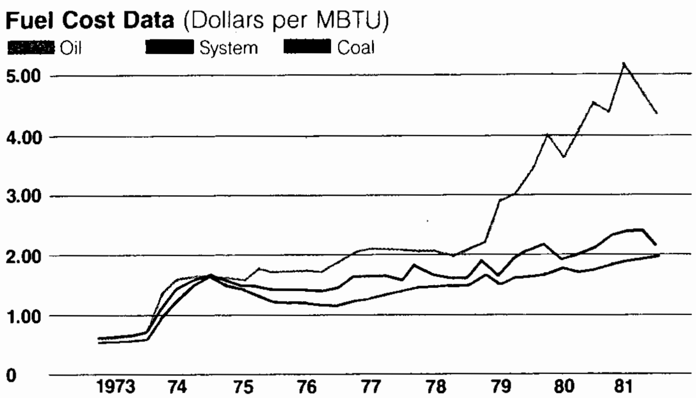
Conservation specialist Bob Edwards explains to customers how wise energy use can help them control their electric bill.

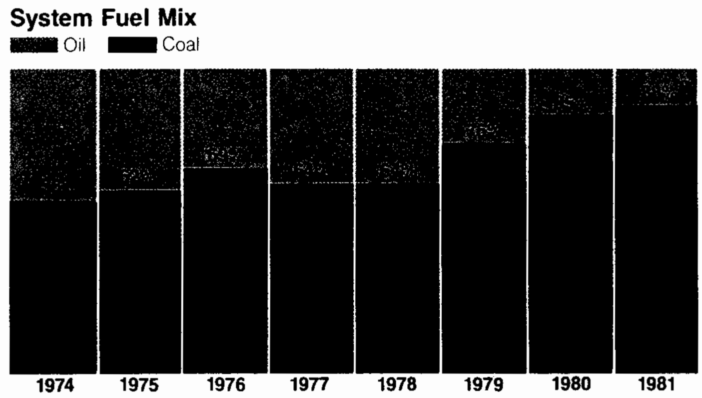
Fuel Rates

In each retail jurisdiction, PEPCO's rates for electricity are divided into two components, a base rate and a fuel rate. Although the mechanics differ, in each jurisdiction we bill customers for the actual cost of fuel, plus or minus the net charge or credit from interchange of electricity with other utilities. More information about the fuel rates is included in the Financial Statements section of this report.

Fuels and Power Supply

Coal today costs much less than oil, so PEPCO relies on it for 85% of the power we generate. To ensure reliable deliveries, the Company replenishes supplies at Southern Maryland plants with fuel delivered on PEPCO-owned unit trains. Ownership of the trains saved customers over half a million dollars in 1981. Below: Coal Handler George Savoy moves coal onto the pile at Morgantown after a new delivery.





Fuel and interchange costs represented 42% of PEPCO's total 1981 cost of providing service. Because these costs make up such a large part of customers' bills, PEPCO places the highest priority on programs to control them.

Our goal has been to burn coal to generate at least 85% of the electricity we produce. We were able to attain or exceed the 85% goal for the second consecutive year. In contrast, coal was used to generate only about 56% of the electricity we produced at the time of the 1973 oil embargo.

Because it costs less than oil, coal will continue to be the primary fuel for our base-load generating units—those that generally operate around the clock. Cycling and peaking units—those that operate for short, intermittent periods—were designed to operate efficiently with oil. We will continue to burn limited quantities of oil in those units.

1981 Fuel Prices

Overall, fuel costs increased 11.9% from \$2.02 per MBTU (Million British Thermal Units) in 1980 to \$2.26 per MBTU in 1981. We burned 5.7 million tons of coal in 1981, at an average cost of \$45.94 per ton, or \$1.88 per MBTU. In comparison, we burned 6.4 million tons in 1980 at an average cost of \$39.74 per ton, or \$1.61 per MBTU.

Residual oil consumption in 1981 totalled 2.4 million barrels at an average cost of \$28.73 per barrel, or \$4.65 per MBTU. In 1980, we used 3.8 million barrels at an average cost of \$25.09 per barrel, or \$4.06 per MBTU.

As these figures show, coal prices increased more rapidly during 1981 than oil prices, but coal is still only 40% as costly as oil. The 72-day labor strike of the United Mine Workers of America added directly and indirectly to the increased costs. The settlement itself added about 5% to mine-head costs. Also, inventory build-ups both before and after the strike tightened the market for the Appalachian coal we burn. At PEPCO, we increased coal stockpiles early in 1981 in anticipation of the walkout, and service to our customers was not threatened.

Oil prices increased sharply in late 1980 and the early months of 1981, and then fell almost as rapidly near mid-year. The gap between coal and oil prices has narrowed, but we expect coal to maintain a price advantage for the near term. Cost projections become more speculative in the long term, and the Company will retain the capability of shifting use between fuels as prices change.

To assure adequate supplies of the fuels we burn at the lowest delivered cost, PEPCO uses purchasing techniques that are designed to promote competition, hold down long-term costs and provide flexibility in the event of changing environmental requirements. About two-thirds of our coal requirements for 1982 are covered by contracts of one- to ten-year duration. Additional contracts are planned.

Power Purchases

At times, PEPCO does not have enough coal-fired capacity available to meet our customers' total energy demand. As more generating capacity is needed to meet higher demand or to replace units out of service, we sometimes purchase power from other utilities to supply our customers from the most economical source available.

In past years, PEPCO has been a net exporter of electricity, and much of it has been generated in oil-fired units. However, in 1981 utilities to the west had available for purchase an abundance of relatively low-cost, coal-generated power. Utilities in the mid-Atlantic region were able to benefit from this situation. They were able to purchase coal-generated electricity more cheaply than they could generate it themselves with oil-fired equipment or import it from PEPCO or other mid-Atlantic utilities.

PEPCO also took advantage of this opportunity and has been purchasing an average of 236,000 megawatt-hours of coal energy monthly.

Although PEPCO exported less electricity to other utilities and had fewer credits to offset fuel costs in 1981 than in prior years, our customers benefitted from the purchases we made. The purchases were particularly beneficial to customers in early 1981 when a series of outages limited our ability to call upon coal-fired generation. Purchases of electricity allowed us to satisfy most of that generation requirement with relatively low-cost coal power, instead of generating the power from oil-fired units at substantially higher costs.

Electric Energy Outlook in the '80s

Forty-two percent of our cost of service is related to providing the plant and equipment to serve customers. One of PEPCO's major strategies for controlling costs has been to minimize the need for new construction. This strategy is especially critical now, with the cost of building and financing new plant facilities at a record high.

The Washington skyline, with Washington monument at the left and the John F. Kennedy Center for the Performing Arts at the right.

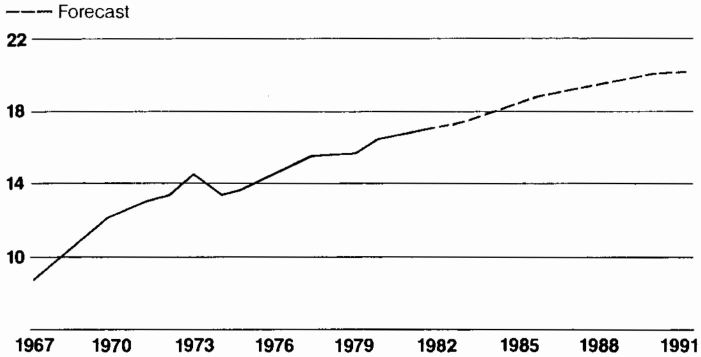
The low rate of growth in demand for energy in the Washington, D.C. area is vitally important. We project that sales and summer peak demand will grow only 1% to 2% a year for the next decade.

Limited growth in sales and demand for energy stems from three major factors:

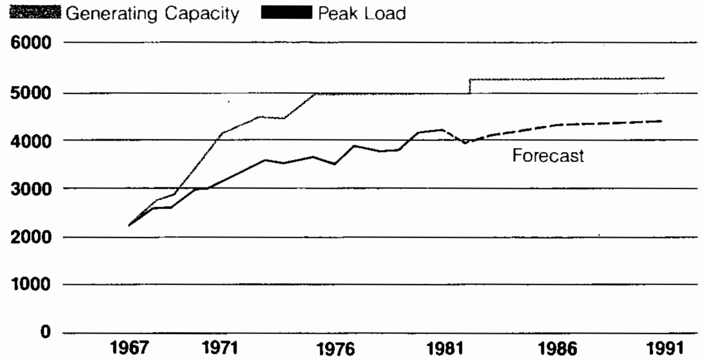
- While the Washington, D.C. area is experiencing economic growth and expansion, population has stabilized over the past decade in our service territory. Most population growth now is occurring in "new towns" or commuter communities outside PEPCO's service territory.
- PEPCO customers are extremely energy conscious, and have been effective in adopting the energy conservation measures endorsed and promoted by PEPCO.
- PEPCO has designed energy use management programs to assure that growth in demand will remain low.

Our 1981 experience was consistent with our forecasts. As discussed earlier, sales increased only

Kilowatt Hour Sales (Billions)



System Generating Capacity and Peak Load (in Megawatts)



1.3% over 1980. The peak demand for energy was 4152 megawatts, less than 1% higher than the previous peak set in 1980.

It is noteworthy that the summers of 1980 and 1981 were the two hottest summers experienced in PEPCO's service area in some 30 years.

Energy Use Management

To help keep growth in demand low, PEPCO is making energy use management programs a part of our energy plans for the future. Some already are fully implemented; others are being tested or phased in slowly while we determine their effectiveness. Our efforts include:

- **Conservation.** Since 1978, PEPCO has helped residential customers reduce their energy use by offering a home energy audit. We have completed audits for over 10,000 customers, providing each with a detailed energy conservation plan that shows how much they may save through specific energy improvements to their home. In addition, we provide customers a wide range of conservation information. PEPCO also has active programs of energy use management assistance to commercial and governmental customers. These customers account for about 70% of our sales.

- **Rates.** Time-of-day rates have been in effect since June 1980 for our largest commercial customers in the District of Columbia. These rates are higher during peak periods, to reflect the higher cost of providing service at those times. Thus, they provide an incentive for the customer to shift usage away from peak periods.

Pending approval by our regulatory commissions, we plan to begin time-of-day rates for larger residential customers in Maryland and the District. PEPCO also has asked area commissions to approve a voluntary, curtailable rate experiment for more than 30 large commercial customers. Under such a program, customers would be offered rate incentives for reducing their demand during peak periods.

- **Direct Load Control.** PEPCO is testing radio control of residential water heaters and air conditioners, appliances that can be cycled off for short intervals during peak periods with little impact on customer comfort. In a pilot program, about 650 customers in Maryland and the District are allowing us to remotely control these appliances.

- **Thermal energy storage.** A promising way to reduce peak demand of new commercial buildings is to use water to store cooling energy off-peak. The stored energy can be used on-peak to cool the building. To encourage such systems, PEPCO is installing thermal energy storage at a new service center under construction in Prince George's County, Maryland. The demonstration system will reduce peak demand from the building's air conditioning equipment by at least 50%.

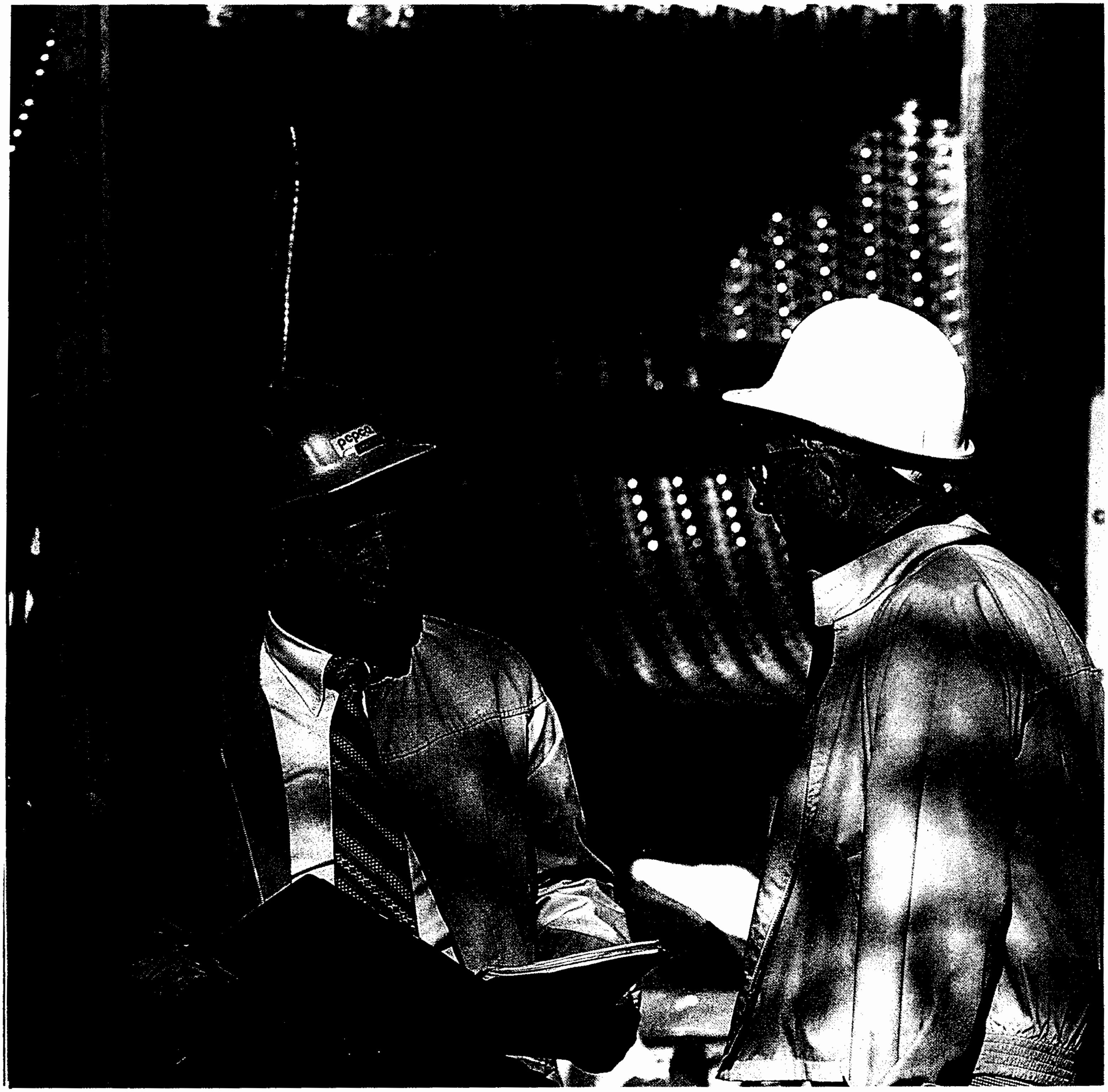
- **Cogeneration**—PEPCO encourages the development of economic cogeneration projects in the service area. Cogeneration involves the sequential use of the same steam for electrical generation and for heating. In a broader sense, it also includes small power production from emerging or renewable sources such as solar, wind or solid wastes. PEPCO assists potential cogenerators in studying the feasibility of such plans and will purchase excess electricity they produce.

- **Heat Pumps**—As part of energy use management programs, PEPCO has stepped up efforts to encourage installations of the energy efficient electric heat pump, a single system that heats and cools the home. Our programs are aimed at builders and contractors installing new systems and at homeowners who may be considering replacing their existing heating or cooling system.

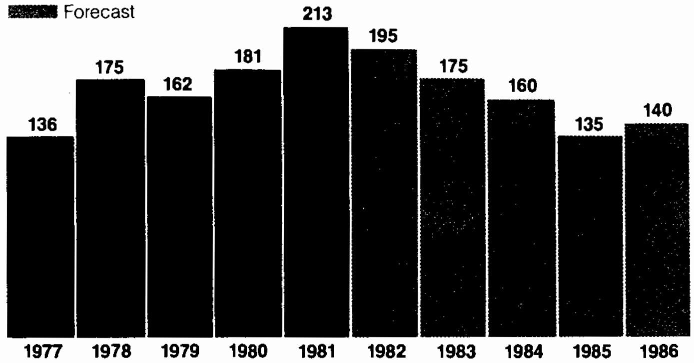
From the customer's standpoint, the heat pump operates very economically. It also eliminates the need for separate heating and cooling systems. From PEPCO's standpoint, wider use of the heat pump will help us improve the productivity of our generating facilities since it will increase the demand for energy in the winter months, when energy demand is traditionally less heavy.

Construction

With 28 years experience, General Foreman Lou Spencer (left) directs installation of 230,000-volt underground transmission cable. At a cost of $280 a foot, this 11-mile segment of line is an investment in more reliable, efficient service. The new transmission route allowed PEPCO to retire older generating units in the District of Columbia, and to serve customers with power from newer, more efficient units.



Construction Expenditures (Millions of Dollars)



Although total capital requirements remain high in absolute terms, PEPCO has one of the smallest construction programs, as a percentage of existing plant investment, among major utilities. We are working hard to keep it that way.

1981 Spending

Construction spending in 1981 totalled $213 million, excluding financing costs (AFUDC) that are recorded as part of the cost of plant. Only about $95 million, or 45% of the total, was for new production facilities, including $31 million for environmental equipment. New transmission and distribution lines, substations, service connections and other facilities accounted for the other $118 million, or 55%.

Generating Additions and Retirements

Late in 1981, PEPCO placed in service our first new generating unit since 1975, a 600-megawatt unit at our Chalk Point generating station. We expect the new unit, Chalk Point #4, to be the last generator placed in service on the PEPCO system for the next decade.

Chalk Point #4 is an oil-fired "cycling" unit, which plays a very specific role in the mix of generating capacity. Most of our customers' needs are met by base-load, coal-fired units that operate around the clock. In contrast, cycling units like Chalk Point #4 are designed for rapid start-up to help meet daytime increases in load requirements. By their nature, such units are not required to operate much of the time.

Planning for Chalk Point #4 began in the late 1960s, when oil was more economical and environmentally acceptable than coal and when

PEPCO crews install underground service at a new home in Prince George's County.

growth in demand for electricity was high. The unit was initially planned for service in 1975. With the 1973 oil embargo, however, we experienced an abrupt change to slower growth rates in demand for energy, and construction was deferred. Construction was resumed in 1978 and we placed the unit in service in late 1981.

Also in 1981, we retired 269 megawatts of obsolete, oil-burning capacity at our in-city Benning and Buzzard Point plants. The new Chalk Point unit will operate more efficiently than the units retired, so the overall impact on the amount of oil we burn will be minimal.

Transmission Facilities

In December 1981, PEPCO energized a 20-mile section of 500-kilovolt transmission line that will help carry energy generated by Chalk Point #4. The line connects the generating station with a new 500-kilovolt substation at the southern extremity of our service territory.

With the addition of this transmission line, we are one step closer to completing a 500-kilovolt loop that will encircle the Washington, D.C. area. PEPCO, Virginia Electric and Power Company and Baltimore Gas and Electric Company are building the loop to improve the ability to exchange power with other utilities and strengthen reliability of service. About 57 miles of the 238-mile loop remain to be built by the three utilities.

Future Plans

For the next five years, PEPCO estimates construction spending will total $805 million. About $234 million, or 29%, of the five-year total will be for production facilities, including $46 million for pollution control. About $571 million, or 71%, is budgeted for transmission, distribution, service and other facilities.

As these figures indicate, much of our construction spending today is for facilities that carry power from

Left to right: Phil Gordon, Steve Boyle and Doug DeLawter prepare engineering layouts for a new service connection.

Financing

the generating stations to our customers. With extensive new construction and redevelopment in the Washington, D.C. area, PEPCO must continue to add new service connections and modify existing facilities to meet customer needs.

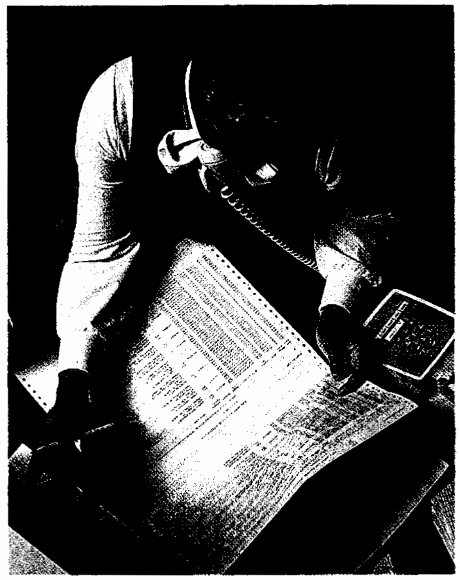
PEPCO also is building two new service centers that will enhance service to customers and improve efficiency of operations. They are a 106,000-square-foot center at Forestville, Maryland, and a 90,000-square-foot center on our property adjacent to the Benning generating station in the District of Columbia.

To prepare for future energy demand, PEPCO is proceeding with design work for a coal-fired unit, in the 300-400 megawatt size range, which can be ready when needed in the early 1990s.

With the continued high cost of capital, PEPCO has worked to maintain as much financing flexibility as possible and to complete required financings at the lowest cost.

Our 1981 financings included:

- The sale in June of $50 million in ten-year 14½% mortgage bonds at a cost to the Company of 14.78%. Proceeds of the sale were used to retire $50 million in 10¼% First Mortgage Bonds that matured August 15, 1981.
- The sale in June of $30 million in floating rate First Mortgage Pollution Control Bonds in cooperation with Prince George's County, Maryland. These tax-exempt bonds mature in 2010 and provide long-term financing for air pollution control projects at the Chalk Point generating station. The variable interest rate is based on a formula tied to U.S. Treasury rates. The cost to PEPCO will not be less than 6% or more than 12% annually. For 1981, the interest rate averaged 9.85%.
- The initiation in August of a $27 million tax-exempt municipal commercial paper program in cooperation with Prince George's County, Maryland to fund the remainder of the Chalk Point air pollution control projects mentioned above. Interest on the paper averaged 8.39% in 1981.
- The private placement in October of $50 million of 20-year adjustable rate First Mortgage Bonds maturing in 2001. The bonds carried an initial interest rate of 17¼%, which will be adjusted each December based on a formula keyed to a U.S. Treasury index. The Company issued $10 million of these bonds in December 1981 and is scheduled to issue the remaining $40 million not later than May 14, 1982. The proceeds were used to reduce short-term debt.



Nearly 90% of PEPCO's 117,000 common shareholders are individuals. Carolyn Hooker (above) assists shareholders with transactions or questions on their accounts.

- The sale of $15.1 million in new common equity through PEPCO's Shareholder Dividend Reinvestment and Stock Purchase Plan. Through this Plan, shareholders can conveniently and automatically reinvest their dividends in new shares of PEPCO common stock at a 5% discount from market price. Participants can also make cash investments of between $25 and $3000 per quarter to purchase additional shares at the prevailing market price. Since the Dividend Reinvestment Plan was established in 1973, PEPCO has raised $66.2 million in common stock equity through the Plan.
- The sale of $2.6 million in new common equity through PEPCO's Employee Stock Ownership Plan.

Through this plan, all employees with one year of service receive stock in the Company. The Plan is funded by federal income tax investment credits, a portion of which is matched by employee contributions. The Company also established in 1981 a voluntary Thrift Savings Plan for exempt, or salaried, employees which in 1981 provided $0.5 million in new common equity.

PEPCO plans to conduct its external financing program with the goal of maintaining the common stock equity component of its capital structure in the 40% range.

Economic Recovery Tax Act of 1981

In August, President Reagan signed into law the Economic Recovery Tax Act of 1981. The Act provides for major changes in the federal income tax law designed to promote capital formation and stimulate investment in new productive facilities. These changes, which will be implemented over the next several years, should improve the financial health of utilities by increasing internal cash generation and reducing external financing requirements.

Accelerated Cost Recovery System (ACRS). Under the new law, plant assets placed in service after December 31, 1980 can be depreciated over much shorter time periods—15 years for most utility property, as compared to 23 years under old law. As a result, utilities can realize greater annual tax deductions over a shorter period of time. Investment tax credit provisions also have been liberalized to provide the additional credits for assets with shorter property lives.

Dividend Reinvestment Plan. The new Tax Act also includes a provision that will benefit many individual utility shareholders. The Act permits shareholders to exclude dividends on public utility common stock of up to $750 on an individual tax return ($1,500 on a joint return) if dividends are reinvested through a qualified Dividend Reinvestment Plan. This favorable tax treatment applies only to individuals electing this tax reporting. It is not available to corporations, trusts, estates and nonresident aliens.

As indicated in our interim reports to shareholders, beginning in 1982 dividends reinvested in Potomac Electric Power Company stock qualify with regard to the new Tax Act and may be excluded from income taxes under this provision of the tax law. The common stock received through reinvestment will have a zero cost basis, and tax is deferred until shares of PEPCO stock are sold. When stock is sold, if holding period requirements are met, the proceeds may be eligible for taxation under the long-term capital gains provisions of the tax law.

Shareholders having questions or desiring to participate in the Dividend Reinvestment Plan should write or call our Shareholder Service Department to request a copy of our Plan prospectus. (The Company's address and telephone number appear on the inside back cover of this report.)

Changes in Organization

- Alan G. Kirk II, 55, formerly Vice President and General Counsel, was elected Senior Vice President and General Counsel. Mr. Kirk joined PEPCO in 1975 as General Counsel, and was elected a vice president in 1976.
- Edward A. Caine, 38, Deputy General Counsel, was elected Vice President–Regulatory Law. Mr. Caine joined PEPCO in 1972 as assistant counsel. Following employment with American Electric Power as Senior Rate Counsel in 1977, he returned to PEPCO in 1978.
- John M. Derrick, Jr., 41, formerly Director—Customer Services, was elected Vice President—Customer Services. An electrical engineer, Mr. Derrick joined PEPCO in 1961.
- Frank A. Peluso, 58, joined PEPCO as Vice President–Human Resources. He served as Vice President–Personnel of Wisconsin Gas Company from 1963 to 1981. Before joining that company he held a number of personnel and industrial relations positions with other corporations.

Financial Statements

Management's Report on the Financial Statements

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles and the Uniform System of Accounts promulgated by the Federal Energy Regulatory Commission.

The financial statements are the responsibility of management. The Company has established a system of internal accounting controls to provide reasonable, but not absolute, assurance as to the integrity of the financial statements. The system of internal controls is examined by management on a continuing basis for effectiveness and cost efficiency. The system is also reviewed on a regular basis by an internal audit staff which reports directly to the President. The Company's independent accountants, Price Waterhouse, review and test the system of internal controls in the course of their annual examinations of the financial statements.

The report of Price Waterhouse on the examination of the accompanying financial statements appears on this page. The report includes the accountants' opinion that the financial statements present fairly the financial position of the Company at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981.

The financial statements have been reviewed by the Audit Committee of the Board of Directors of the Company, consisting of three outside directors. The Audit Committee discusses accounting, auditing and financial reporting matters with management and Price Waterhouse on a regular basis and reviews the program of audit work performed by the internal audit staff. To ensure the auditors' independence, both Price Waterhouse and the internal audit staff have direct access to the Audit Committee.

H. Lowell Davis

H. Lowell Davis
Executive Vice President—
Financial and Human Resources
January 18, 1982

Contents

Report of Independent Accountants

To the Shareholders and
Board of Directors of
Potomac Electric Power Company

In our opinion, the accompanying balance sheets and the related statements of earnings, of retained income and of source of funds invested in property and plant construction present fairly the financial position of Potomac Electric Power Company at December 31, 1981 and 1980, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Washington, D.C.
January 18, 1982

Selected Financial Data

	1981	1980	1979	1978	1977	1976
	(Thousands of Dollars except Share Data)					
Operating Revenue	**$1,000,510**	$ 856,058	$ 749,333	$ 714,713	$ 664,355	$ 549,971
Operating Expenses	**$ 820,536**	$ 685,163	$ 606,720	$ 571,252	$ 513,320	$ 408,857
Net Income	**$ 109,672**	$ 104,085	$ 84,356	$ 78,756	$ 84,936	$ 76,963
Earnings for Common Stock	**$ 93,297**	$ 88,774	$ 71,242	$ 68,543	$ 70,501	$ 61,417
Average Common Shares Outstanding (000's)	**43,650**	42,243	41,158	40,324	38,806	35,667
Earnings per Common Share	**$ 2.14**	$ 2.10	$ 1.73	$ 1.70	$ 1.82	$ 1.72
Cash Dividends per Common Share	**$ 1.58**	$ 1.46	$ 1.355	$ 1.34	$ 1.28	$ 1.16
Investment in Property and Plant	**$2,732,536**	$2,555,658	$2,470,007	$2,322,193	$2,162,143	$2,085,788
Net Investment in Property and Plant	**$2,087,706**	$1,938,983	$1,909,452	$1,810,108	$1,698,407	$1,662,359
Total Assets	**$2,518,752**	$2,396,855	$2,226,752	$2,083,405	$2,001,518	$1,845,378
Long Term Obligations (including redeemable preference and preferred stock)	**$1,011,865**	$1,007,299	$ 979,659	$ 930,806	$ 909,277	$ 866,145

Summary of Significant Accounting Policies

The Company's utility operations are regulated by the Maryland and District of Columbia Public Service Commissions, the Virginia State Corporation Commission and, as to its wholesale business, the Federal Energy Regulatory Commission (FERC). The Company complies with the Uniform System of Accounts prescribed by FERC and adopted by the Maryland and District of Columbia regulatory commissions. In accordance with generally accepted accounting principles, the accounting policies and practices applied by the regulatory commissions in the determination of rates are also employed for financial reporting purposes. A description of the Company's significant accounting policies follows:

Operating Revenue

Revenue from the sale of electricity is recognized when billed to customers. In each jurisdiction, the Company's rate schedules include fuel rates. The fuel rate provisions are designed to provide for separately stated fuel billings which cover applicable net fuel and interchange costs or changes in applicable net fuel and interchange amounts incorporated in base rates. Differences between net fuel and interchange costs incurred and fuel rate revenues billed in any given period are accounted for as other current assets or other current liabilities in those cases where specific provision for the resolution of such differences within one year has been made by the appropriate regulatory commission. Other differences between net fuel and interchange costs incurred and fuel rate revenues billed in a given period are accounted for as other deferred charges or other deferred credits pending the adoption of specific provisions for the resolution of the differences through subsequent billings.

Property and Plant

The costs of additions to, and replacements or betterments of, retirement units of property and plant are capitalized. Such costs include material, labor, the capitalization of an Allowance for Funds Used During Construction (AFUDC) and applicable indirect costs such as the costs of engineering, supervision, payroll taxes and employee benefits. The original cost of depreciable units of plant retired, together with the costs of removal, net of salvage, are charged to accumulated depreciation. Routine repairs and maintenance are charged to operating expenses as incurred.

Historically, the Company has used a single system-wide composite plant asset depreciation rate for financial reporting and rate-making purposes. The single composite rate was determined each year by reference to separate component depreciation rates applicable to individual plant asset accounts. Through May 1980, the composite depreciation rate was based upon an engineering study of electric plant in service at December 31, 1973. The composite rate established for 1980 was 3.20%, substantially unchanged from the 3.21% rate used in 1979.

In May 1980, the Company implemented new retail rates for electric service in the District of Columbia and Virginia which reflected the adoption of separate system-wide composite depreciation rates for each functional class of electric plant based upon an engineering study of electric plant in service at December 31, 1978. The functional rates were equivalent to a composite depreciation rate of approximately 3.40% in 1981 and 1980.

Although the use of separate functional composite depreciation rates has also been approved by the Maryland Public Service Commission, the Maryland Commission has continued to require that the depreciation rates in use be based upon the 1973 depreciation study, pending the completion of a comprehensive review of the Company's depreciation practices. Accordingly, provisions for depreciation of plant assets allocable to the Maryland jurisdiction cannot exceed 3.2%. The Company has completed a new depreciation study, based upon plant balances as of December 31, 1980. The study provides functional rates which are equivalent to a composite depreciation rate of 3.8%. In conjunction with its September 1981 request for new rates in Maryland, the Company has requested the Commission's approval to implement the new study. The Company has also requested approval of the new study by the Virginia State Corporation Commission and expects to seek the adoption of the study for the remainder of its business in 1982.

Allowance for Funds Used During Construction

Prior to 1979, the Company's investment in Construction Work in Progress (CWIP) was included in rate base without capitalization of AFUDC by the Maryland, District of Columbia and Virginia regulatory commissions. Such accounting had been followed since 1947.

In a June 1979 rate decision, the District of Columbia Public Service Commission modified its previous practice by directing that the District of Columbia allocable portions of the Company's investment in the Dickerson Generating Station Unit No. 4 project (which project was cancelled in June 1980—See Note 7) and future investments in CWIP (excluding expenditures for pollution control devices required to comply with federal, state and/or local government regulations) be excluded from rate base. In July 1979, the Company adopted AFUDC accounting for those portions of its investment in CWIP which are excluded from rate base by the District of Columbia Public Service Commission and for CWIP related to its wholesale business.

In an April 1980 rate decision, the Maryland Public Service Commission also excluded the Company's investment in CWIP relating to the Dickerson Generating Station Unit No. 4 (which project was cancelled in June 1980—See Note 7) from rate base. In a September 1980 decision on a rehearing of the April order, the Maryland Commission also directed that the Maryland allocable portions of future additions to CWIP be excluded from rate base. Pursuant to these decisions the Company adopted AFUDC accounting for the investments in CWIP which are excluded from rate base by the Maryland Commission.

The AFUDC capitalization rates used were approximately 7.6% in 1981, 7.25% in 1980 and 7% in 1979, compounded semiannually. The rates were determined on a net-of-tax basis pursuant to a formula prescribed by FERC.

Income Taxes

The Company uses normalization accounting for substantially all income tax timing differences, except for the effects of accelerated depreciation of plant assets placed in service prior to 1975, which are accounted for on a "flow-through" basis.

Generally, the 10% investment tax credits are normalized ratably over the "service lives" of the related plant assets under the deferral method of accounting. Through 1981, the portion of the investment tax credit available under pre-1975 federal tax law which is allocable to the Company's District of Columbia operations (approximately 15% of total investment tax credits) is accounted for on a "flow-through" basis. Accordingly, that portion of the credit is recognized as an immediate reduction of income tax expense in the year in which the credit was claimed as a reduction of federal income tax. The District of Columbia Public Service Commission approved the prospective normalization of such investment tax credits, in a December 30, 1981 rate order.

Statements of Earnings

Potomac Electric Power Company

	For the year ended December 31, 1981	1980	1979
	(Thousands of Dollars)		
Operating Revenue (Note 1)	**$1,000,510**	$856,058	$749,333
Operating Expenses			
Operation (Notes 2 and 3)	**526,484**	392,153	356,353
Maintenance	**64,329**	64,592	55,436
Depreciation and amortization	**78,070**	74,347	68,562
Income taxes (Note 4)	**74,511**	84,791	58,232
Other taxes (Note 5)	**77,142**	69,280	68,137
Total Operating Expenses	**820,536**	685,163	606,720
Operating Income	**179,974**	170,895	142,613
Other Income			
Allowance for other funds used during construction	**5,181**	3,869	5,031
Income tax credits	**2,797**	1,449	2,171
Other, net	**3,368**	1,599	1,383
Total Other Income	**11,346**	6,917	8,585
Income Before Interest Charges	**191,320**	177,812	151,198
Interest Charges			
Interest on debt	**84,603**	75,215	69,055
Allowance for borrowed funds used during construction	**(2,955)**	(1,488)	(2,213)
Net Interest Charges	**81,648**	73,727	66,842
Net Income	**109,672**	104,085	84,356
Dividends On Preference and Preferred Stock	**16,375**	15,311	13,114
Earnings For Common Stock	**$ 93,297**	$ 88,774	$ 71,242
Average Common Shares Outstanding (000's)	**43,650**	42,243	41,158
Earnings Per Common Share*	**$2.14**	$2.10	$1.73
Cash Dividends Per Common Share	**$1.58**	$1.46	$1.355

*No material dilution would occur if all of the convertible preferred stock were converted into common stock.

Statements of Retained Income

Potomac Electric Power Company

	For the year ended December 31, 1981	1980	1979
	(Thousands of Dollars)		
Retained Income at Beginning of Year	**$206,284**	$179,282	$163,880
Net income	**109,672**	104,085	84,356
Dividends on preference and preferred stock	**(16,375)**	(15,311)	(13,114)
Dividends on common stock	**(69,086)**	(61,772)	(55,840)
Retained Income at End of Year	**$230,495**	$206,284	$179,282

Balance Sheets

Potomac Electric Power Company

Assets	December 31, 1981	1980
	(Thousands of Dollars)	
Property and Plant—at original cost (Notes 6 and 12)		
Electric plant in service	**$2,531,968**	$2,247,719
Construction work in progress	**189,546**	296,297
Electric plant held for future use	**7,567**	8,096
Nonutility property	**3,455**	3,546
	2,732,536	2,555,658
Less accumulated depreciation	**644,830**	616,675
Net Property and Plant	**2,087,706**	1,938,983
Current Assets		
Cash, including time deposits of $170 and $961 (Note 13)	**4,693**	5,811
Deposits with mortgage trustee	**431**	118
Customer accounts receivable, less allowance for uncollectible accounts of $3,803 and $3,774	**61,558**	67,707
Other accounts receivable, less allowance for uncollectible accounts of $450 and $400	**11,838**	27,152
Prepaid taxes	**29,281**	31,973
Other prepaid expenses	**6,343**	2,215
Material and supplies—at average cost		
Fuel	**98,759**	109,434
Construction and maintenance	**62,185**	59,962
Total Current Assets	**275,088**	304,372
Deferred Charges		
Project cancellation costs (Note 7)	**113,952**	117,438
Other	**42,006**	36,062
Total Deferred Charges	**155,958**	153,500
Total Assets	**$2,518,752**	$2,396,855

Capitalization and Liabilities	December 31, 1981	1980
	(Thousands of Dollars)	
Capitalization		
Common equity (Note 8)		
Common stock, $10 par value—authorized 80,000,000 shares, issued and outstanding 44,322,476 and 42,876,826 shares	**$ 443,225**	$ 428,768
Common stock subscribed	**2,284**	2,972
Premium on stock and other capital contributions	**104,776**	100,083
Capital stock expense	**(9,411)**	(9,242)
Retained income	**230,495**	206,284
Total Common Equity	**771,369**	728,865
Preference stock (Note 9)	**—**	—
Serial preferred stock (Note 10)	**137,756**	138,064
Redeemable preference and serial preferred stock (Note 11)		
Preference stock	**30,000**	30,000
Preferred stock	**52,500**	52,500
	82,500	82,500
Long term debt (Note 12)		
First mortgage bonds	**901,335**	814,521
4⅝% debentures	**—**	18,015
Notes payable	**28,030**	92,263
	929,365	924,799
Total Capitalization	**1,920,990**	1,874,228
Current Liabilities		
Long term debt due within one year	**19,593**	51,084
Commercial promissory notes (Note 13)	**98,630**	50,150
Pollution control notes (Note 13)	**27,000**	—
Accounts payable and accrued payroll	**85,903**	102,413
Taxes accrued	**22,569**	10,217
Interest accrued	**19,158**	21,468
Customer deposits	**8,780**	7,740
Other	**9,539**	8,288
Total Current Liabilities	**291,172**	251,360
Deferred Credits		
Nuclear fuel supply credits (Note 7)	**63,000**	72,128
Income taxes (Note 4)	**181,935**	149,805
Investment tax credits (Note 4)	**61,655**	46,080
Other	**—**	3,254
Total Deferred Credits	**306,590**	271,267
Commitments (Note 14)		
Total Capitalization and Liabilities	**$2,518,752**	$2,396,855

Statements of Source of Funds Invested in Property and Plant Construction

Potomac Electric Power Company

	For the year ended December 31, 1981	1980	1979
	(Thousands of Dollars)		
Funds Provided From Operations			
Net income	**$109,672**	$104,085	$ 84,356
Noncash income charges (credits)—			
Depreciation and amortization	**78,070**	74,347	68,562
Deferred income taxes	**32,130**	76,514	26,874
Deferred investment tax credits	**15,575**	6,406	12,955
Allowance for other funds used during construction	**(5,181)**	(3,869)	(5,031)
Other	**(8,924)**	(7,406)	(2,372)
Total Funds from Operations Before Dividends	**221,342**	250,077	185,344
Dividends on preference and preferred stock	**(16,375)**	(15,311)	(13,114)
Dividends on common stock	**(69,086)**	(61,772)	(55,840)
Net Funds from Operations After Dividends	**135,881**	172,994	116,390
Other Sources			
Pollution control construction funds received from escrow	**11,787**	286	1,172
Net proceeds from issuance of common stock—			
Dividend Reinvestment and Stock Purchase Plan	**14,899**	12,048	10,416
Employee Stock Ownership Plan and Thrift Savings Plan	**3,108**	3,021	2,442
Sale of redeemable serial preferred stock	**—**	17,414	34,673
Issuance of first mortgage bonds	**87,653**	—	40,356
Issuance of long term notes	**—**	62,934	—
Increase in short term debt—			
Commercial promissory notes	**48,480**	14,445	20,355
Pollution control notes	**27,000**	—	—
Total Funds from Other Sources	**192,927**	110,148	109,414
	328,808	283,142	225,804
Funds Applied To			
Reduction in long term debt	**96,020**	53,520	28,720
Other, net	**10,153**	15,180	(14,568)
Increase in current assets over current liabilities excluding short term debt (Note 15)	**6,384**	32,331	47,426
	112,557	101,031	61,578
Funds Invested in Property and Plant Construction, excluding allowance for other funds used during construction	**216,251**	182,111	164,226
Allowance for other funds used during construction	**5,181**	3,869	5,031
Funds Invested in Property and Plant Construction	**$221,432**	$185,980	$169,257

Notes to Financial Statements

(1) Operating Revenue

The Company's retail service area includes all of the District of Columbia, major portions of Prince George's and Montgomery Counties in suburban Maryland and a small portion of Arlington County, Virginia. The Company also supplies electricity at wholesale under a contract with the Southern Maryland Electric Cooperative, Inc.

Operating revenue for each year was comprised of the following:

	1981		1980		1979	
	Amount	**%**	Amount	%	Amount	%
			(Thousands of Dollars)			
Residential	**$ 251,673**	**25.2**	$215,409	25.3	$184,603	24.7
Commercial	**486,201**	**48.8**	416,224	48.8	374,616	50.2
U.S. Government	**168,101**	**16.9**	143,517	16.9	125,458	16.8
D.C. Government	**42,089**	**4.2**	35,072	4.1	29,176	3.9
Electric Cooperative	**48,566**	**4.9**	41,858	4.9	32,592	4.4
Sales of electricity	**996,630**	**100.0**	852,080	100.0	746,445	100.0
Other electric revenues	**3,880**		3,978		2,888	
Operating Revenue	**$1,000,510**		$856,058		$749,333	

Sales of electricity include base rate billings and fuel rate billings. Fuel rate revenues were $360,669,000 in 1981, $267,869,000 in 1980 and $269,380,000 in 1979. In 1981 and 1980, a portion ($49,627,000 and $28,616,000, respectively) of the billings covering the cost of net fuel and interchange was included in base rates for certain District of Columbia customers, as discussed below.

The District of Columbia fuel rate is based upon an average of historical and projected net fuel and interchange costs and is adjusted monthly to reflect changes in such costs. With the exception of the fuel rate applicable to customers in the time-of-day rate class, the fuel rate in effect through 1981 is zero-based. For time-of-day customers, a fixed portion of the unit cost of net fuel and interchange has been reclassified and included in base rates since June 1980. In a December 1981 rate decision, the District of Columbia Commission directed that a similar reclassification be implemented for all customers.

The Company's Maryland fuel rate is based on historical net fuel and interchange costs. The zero-based rate may not be changed without prior approval by the Maryland Public Service Commission.

The Virginia fuel rate is based upon projected annual average net fuel and interchange costs. The zero-based rate is subject to review by the Virginia State Corporation Commission on a semiannual basis.

(2) Operation Expense

Operation expense for each year was as follows:

	1981	1980	1979
	(Thousands of Dollars)		
Fuel expense	**$348,902**	$358,616	$360,166
Net interchange	**71,997**	(59,595)	(86,833)
Net fuel and interchange	**420,899**	299,021	273,333
Other operation expense	**105,585**	93,132	83,020
Operation Expense	**$526,484**	$392,153	$356,353

Net interchange arises from the exchange of energy and capacity with other electric utilities.

Other operation expense includes other production expense, transmission and distribution expenses, customer accounting and service expenses and administrative and general expenses.

Rents, including property taxes and insurance, net of rental income from subleases, aggregated approximately $13,792,000 in 1981, $12,093,000 in 1980 and $11,903,000 in 1979. See Note 14 for information on lease commitments.

Research and development expenses aggregated approximately $3,120,000 in 1981, $4,093,000 in 1980 and $3,181,000 in 1979. Research and development costs which relate to specific construction projects are capitalized as part of the costs of those projects. The amounts capitalized were not significant.

(3) Pension Plan

Eligible employees of the Company (those employees who are over age 25 with one year of continuous service) are participants in the Company's General Retirement Plan (Plan), a defined benefit plan. The Company's annual provisions for accrued pension cost are based upon independent actuarial valuations. The Company's policy is to fund accrued pension costs. Pension cost accruals include the current cost and an amount required to amortize prior service costs, generally over 30 years. The provisions for pension costs were $6,795,000 in 1981, $6,064,000 in 1980 and $4,858,000 in 1979.

Actuarial assumptions are reviewed on a continuing basis and refinements in the assumptions have had the effect of reducing the annual provision for accrued pension cost by approximately $1,100,000 in 1980 and an additional $900,000 in 1981. Such reductions were offset by the effects of Plan amendments made in 1979 which increased costs by approximately $1,750,000 in 1980 and an additional $830,000 in 1981. The 1979 Plan amendments included the elimination of employee contributions, effective September 1, 1979, and the refund of prior employee contributions in two equal installments in 1980 and 1981.

A comparison of the actuarial present value of accumulated Plan benefits and Plan net assets is presented as follows:

	January 1, **1981**	1980
	(Thousands of Dollars)	
Actuarial present value of accumulated Plan benefits:		
Vested	**$73,160**	$68,320
Non-Vested	**5,010**	5,940
Total	**$78,170**	$74,260
Net assets available for benefits	**$88,560**	$82,340

The actuarial present value of accumulated Plan benefits is based on the employees' history of pay and service and assumed annual rates of investment return (9% in 1981 and 8% in 1980). Such values do not provide for the effects on accumulated Plan benefits of future compensation increases or additional credited service to be earned by participants in the Plan.

(4) Income Taxes

The reconciliation of income tax expense to amounts computed by applying statutory tax rates to reported pretax results for the periods and summaries of the components of income tax expense are set forth below:

	1981	1980	1979
	(Thousands of Dollars)		
Reconciliation of Income Tax Expense			
Income before income taxes	**$183,913**	$188,565	$141,553
Income tax at federal statutory rate	**$ 84,581**	$ 86,721	$ 65,095
Increases or (decreases) resulting from—			
Removal costs	**(2,834)**	(2,124)	(1,390)
Allowance for funds used during construction	**(3,731)**	(2,454)	(3,332)
Investment tax credit	**(6,140)**	(3,105)	(4,212)
Depreciation	**1,328**	1,152	(46)
State income tax, net of federal tax effect	**3,907**	4,160	2,875
Other	**(2,870)**	130	(1,792)
	(10,340)	(2,241)	(7,897)
Total income tax expense	**$ 74,241**	$ 84,480	$ 57,198
Components of Income Tax Expense			
Income taxes currently payable or (refundable)	**$23,738**	$ (328)	$ 16,610
Deferred income taxes—			
Accelerated depreciation, including repair allowance in 1980 and 1979	**16,531**	29,146	26,730
Deferred fuel costs	**5,447**	10,817	(5,189)
Project cancellation costs, net of amortization	**823**	29,106	(2,105)
Sale of nuclear fuel and nuclear fuel contract rights, net of amortization	**2,774**	2,776	2,515
Other	**6,556**	4,291	3,140
Deferred investment tax credit	**15,575**	7,198	12,955
Employee Stock Ownership Plan credits	**2,797**	1,474	2,542
Total deferred income taxes	**50,503**	84,808	40,588
Total income tax expense	**74,241**	84,480	57,198
Income taxes included in other income	**(270)**	(311)	(1,034)
Income taxes included in operating expenses	**$ 74,511**	$ 84,791	$ 58,232

During 1981, the federal income tax law was amended by the Economic Recovery Tax Act (Act) to require the normalization for financial reporting and rate-making purposes of all depreciation timing differences and investment credits related to assets placed in service after December 31, 1980. Under the Act, the Company must achieve compliance with the normalization requirements prior to January 1, 1983. Although the Company's current normalization practices are in substantial compliance with the Act, limited technical modifications to such practices are required in each retail jurisdiction.

The Company's federal income tax returns for 1974 and prior years have been examined by the Internal Revenue Service and the Company's federal income tax liabilities for all years through 1971 have been finally determined. In January 1978, the Company received a revenue agent's report in which certain deficiencies in tax have been proposed for the years 1972 through 1974. The Company has filed a protest and vigorously opposes the proposed deficiencies. The Company's federal income tax returns for the years 1975 through 1978 are currently under examination. The Company is of the opinion that the final settlement of its federal income tax liabilities will not have a material adverse effect on its financial position.

The Company has an Employee Stock Ownership Plan (Plan) under the provisions of the Internal Revenue Code. Under the Plan, the Company is entitled to claim a 1½% investment tax credit in addition to the investment tax credit otherwise available.

(5) Other Taxes

Taxes, other than income taxes, charged to operating expenses for each period were:

	1981	1980	1979
	(Thousands of Dollars)		
Gross receipts	**$33,677**	$28,351	$27,992
Property	**28,731**	28,494	29,106
Payroll	**5,337**	4,310	3,764
County fuel-energy	**4,896**	4,767	4,530
Environmental, use and other	**4,501**	3,358	2,745
	$77,142	$69,280	$68,137

(6) Jointly Owned Generating Facilities

The Company owns a 9.72% undivided interest in the Conemaugh Generating Station located in Johnstown, Pennsylvania. The Company and other utilities own the station as tenants in common and share costs and output in proportion to their ownership shares. Each owner has arranged its own financing relating to its share of the facility. The Company's share of the operating expenses of the station is included in the Statements of Earnings. The Company's investment in the Conemaugh facility of $26,300,000 at December 31, 1981 and $25,900,000 at December 31, 1980 includes $411,000 and $512,000 of Construction Work in Progress, respectively.

(7) Deferred Project Cancellation Costs and Deferred Nuclear Fuel Supply Credits

In June 1977, the Company abandoned construction of a nuclear generating plant at Douglas Point, Maryland. In 1980 the Company settled and paid all remaining contractual claims related to the construction project. Unamortized costs incurred on the project are included in "Deferred Project Cancellation Costs." Following the abandonment, the Company sold both its contractual rights for the purchase of uranium and the uranium which had been delivered under the contract. The unamortized gains from the sales are reported as "Deferred Nuclear Fuel Supply Credits."

Under accounting approved by the Maryland, District of Columbia and Virginia regulatory commissions, the Company is amortizing the deferred costs and credits, net of applicable income taxes, over ten-year periods. Amortization began in 1978 and 1979, coincident with implementation of rates designed to reflect such accounting. At December 31, 1981 and December 31, 1980, the unamortized costs and credits were:

	1981	1980
	(Thousands of Dollars)	
Project cancellation costs	**$28,640**	$33,468
Nuclear fuel supply credits	**$63,000**	$72,128

Deferred Project Cancellation Costs at December 31, 1981 and 1980 also include the Company's investment of approximately $85,000,000 in the Dickerson Generating Station Unit No. 4. The Company cancelled its plans to construct the Dickerson unit in June 1980.

The materials and equipment acquired by the Company for the Dickerson project, representing less than 10% of the total estimated cost of the completed project, are being disposed of in the most economical manner. The Company is seeking regulatory approvals to amortize the net costs resulting from the Dickerson cancellation over a ten-year period for rate-making and financial reporting purposes, consistent with the accounting which has been adopted for the abandonment of the Douglas Point project and the sale of nuclear fuel and fuel supply rights.

(8) Common Stock

Changes in common stock and premium on stock are summarized below:

	Common Stock Shares	Common Stock Par Value	Premium on Stock
		(Thousands of Dollars)	
Balance, December 31, 1978	40,664,698	$406,647	$ 94,150
Conversion of preferred stock	32,146	321	243
Sale of stock through Dividend Reinvestment and Stock Purchase Plan	775,456	7,755	1,854
Issuance of stock to Employee Stock Ownership Plan Trust	186,161	1,862	600
Balance, December 31, 1979	41,658,461	416,585	96,847
Conversion of preferred stock	43,249	432	324
Sale of stock through Dividend Reinvestment and Stock Purchase Plan	937,383	9,374	2,234
Issuance of stock to Employee Stock Ownership Plan Trust	237,733	2,377	678
Balance, December 31, 1980	42,876,826	428,768	100,083
Conversion of preferred stock	17,808	178	130
Sale of stock through Dividend Reinvestment and Stock Purchase Plan	1,202,616	12,026	3,670
Issuance of stock to Employee Stock Ownership Plan Trust	188,593	1,886	738
Issuance of stock to Thrift Savings Plan Trust	36,633	367	155
Balance, December 31, 1981	44,322,476	$443,225	$104,776

The Company has a Shareholder Dividend Reinvestment and Stock Purchase Plan (DRP). Beginning in 1982, reinvestments of dividends by individual shareholders through the DRP will qualify for the tax deferral provision of the federal tax law as amended by the Economic Recovery Tax Act of 1981. The DRP allows common shareholders to reinvest their cash dividends in new issue common stock at a 5% discount from the market price and to make additional cash investments in common stock through the DRP at the market price. The additional cash investments by each DRP participant are limited to one investment a month of not less than $25, with such additional investments not to exceed an aggregate of $3,000 in any calendar quarter. As of December 31, 1981, 4,905,371 shares had been issued through the DRP at prices ranging from $10.00 to $16.19 and 228,418 shares were subscribed for issuance in January 1982.

As of December 31, 1981, 159,583 shares of common stock were reserved for issuance upon the conversion of Convertible Preferred Stock, 1,004,629 shares for issuance under the DRP, 610,643 shares for issuance under the Employee Stock Ownership Plan and 213,367 shares for issuance under an Employee Thrift Savings Plan established in 1981.

Certain provisions of the Company's First Mortgage Indenture (relating to 1983 and 1984 series bonds), the indenture relating to the 4⅝% Debentures and the corporate charter (relating to Preference Stock and Preferred Stock) would impose restrictions on the payment of dividends under certain circumstances. No portion of retained income was so restricted at December 31, 1981.

(9) Preference Stock

The Company has 10,000,000 shares of cumulative, $25 par value preference stock authorized and has issued 1,200,000 shares at December 31, 1981 and 1980. All of the outstanding shares are redeemable. (See Note 11.)

(10) Serial Preferred Stock

The Company has authorized 8,555,528 shares of cumulative $50 par value Serial Preferred Stock. At December 31, 1981 and 1980, there were outstanding 3,805,117 and 3,811,287 shares, respectively. The various series of Serial Preferred Stock outstanding (excluding 1,050,000 shares of Redeemable Serial Preferred Stock—See Note 11) and the per share redemption price at which each series may be called by the Company are as follows:

	Redemption Price	December 31, **1981**	1980
		(Thousands of Dollars)	
$2.44 Series of 1957, 300,000 shares	$51.00	**$ 15,000**	$ 15,000
$2.46 Series of 1958, 300,000 shares	51.00	**15,000**	15,000
$2.28 Series of 1965, 400,000 shares	51.00	**20,000**	20,000
$3.82 Series of 1969, 500,000 shares	52.00	**25,000**	25,000
$4.50 Series of 1970, 600,000 shares	52.25	**30,000**	30,000
$4.04 Series of 1971, 600,000 shares	51.83	**30,000**	30,000
$2.44 Convertible Series of 1966, 55,117 and 61,287 shares, respectively	50.00	**2,756**	3,064
		$137,756	$138,064

The $2.44 Convertible Series of 1966 is convertible into common stock of the Company at a price based upon a formula that is subject to adjustment in certain events. At December 31, 1981, 2.89 shares of common stock could be obtained upon the conversion of each share of convertible preferred stock at the then effective conversion price of $17.28 per share of common stock. The number of shares of this series converted into common stock in 1981, 1980 and 1979 were 6,170, 15,128 and 11,291, respectively.

(11) Redeemable Preference and Serial Preferred Stock

There are no redemption or sinking fund requirements for redeemable preference and redeemable serial preferred stock in 1982. The aggregate amounts of redemption and sinking fund requirements for these issues in 1983, 1984, 1985 and 1986 are $3,000,000, $4,137,500, $4,137,500 and $22,137,500, respectively.

In the event of default with respect to dividends, sinking fund or other redemption requirements relating to the serial preferred stock, no dividends may be paid, or any other distribution made, on preference stock or common stock. In the event of default with respect to dividends, sinking fund or other redemption requirements relating to the preference stock, no dividends may be paid on common stock. Payments of dividends on all series of serial preferred stock or preference stock, including series which are redeemable, must be made concurrently.

- **Redeemable Preference Stock**

At December 31, 1981 and 1980, the Company had outstanding 1,200,000 shares of its cumulative $25 par value Preference Stock which have an annual dividend rate of 7¾%. The Preference Stock is redeemable at par through the operation of a sinking fund. In accordance with the sinking fund agreement, 120,000 shares of the Preference Stock will be redeemed in each of the years 1983 through 1985 and the remaining 840,000 shares will be redeemed in 1986.

The Preference Stock may be redeemed at the option of the Company at a price of $26.11 until September 30, 1982. The redemption price is reduced on that date and on each September 30 thereafter, equalling par value after September 30, 1985. Any redemptions made under the redemption option may not be applied against sinking fund obligations.

- **Redeemable Serial Preferred Stock**

The outstanding series of $50 par value Redeemable Serial Preferred Stock were:

	December 31, **1981**	1980
	(Thousands of Dollars)	
$4.23 Series of 1979, 700,000 shares	**$ 35,000**	$ 35,000
$4.375 Series of 1980, 350,000 shares	**17,500**	17,500
	$ 52,500	$ 52,500

The shares of the $4.23 (8.46%) Series, issued in July 1979, are subject to mandatory redemption at par through the operation of a sinking fund. Beginning on September 1, 1984, not less than 22,750 shares nor more than 45,500 shares will be redeemed annually. The option to redeem in excess of 22,750 shares annually is not cumulative. However, shares which are acquired or redeemed by the Company other than through the operation of the sinking fund may, at the option of the Company, be applied toward the satisfaction of outstanding sinking fund requirements. The shares may be called for redemption at any time on or before September 1, 1984 at a per share redemption price of $54.23. The redemption price is reduced in succeeding years, equalling par value after September 1, 1994. However, the shares of this series are not redeemable prior to September 1, 1984 through certain refunding operations.

The shares of the $4.375 (8.75%) Series, issued in September, 1980, are not redeemable in whole or in part prior to September 1, 1990, at which time the Company shall redeem all of the shares at $50 per share plus any accrued and unpaid dividends.

(12) Long Term Debt

The aggregate amount of maturities and sinking fund requirements for all issues of First Mortgage Bonds, Debentures and Notes Payable outstanding at December 31, 1981 is $19,593,000 in 1982, $21,520,000 in 1983, $35,520,000 in 1984, $33,490,000 in 1985, and $2,500,000 in 1986. In addition, the supplemental indentures covering the bonds of the 1983 and 1984 series require annual improvement and sinking fund payments, or the application of property additions in lieu thereof, in an amount equal to 1% of the principal amount of the bonds of these series. Such requirements have been satisfied to date by the application of property additions.

- First Mortgage Bonds

The First Mortgage Bonds outstanding were:

Interest Rate	Maturity	December 31, **1981**	1980
Fixed Rate Series		(Thousands of Dollars)	
10¼%	August 15, 1981	**$ —**	$ 50,000
3%	January 1, 1983	**15,000**	15,000
2⅞%	May 1, 1984	**10,000**	10,000
2¾%	May 1, 1985	**30,000**	30,000
3¼%	March 1, 1987	**15,000**	15,000
3⅞%	June 1, 1988	**10,000**	10,000
3⅜%	June 1, 1990	**10,000**	10,000
3⅝%	June 1, 1991	**10,000**	10,000
14½%	June 15, 1991	**50,000**	—
4⅝%	December 1, 1993	**25,000**	25,000
5¼%	December 1, 1994	**15,000**	15,000
5%	December 15, 1995	**40,000**	40,000
5⅝%	December 31, 1997	**25,000**	25,000
4⅜%	February 15, 1998	**50,000**	50,000
4½%	May 15, 1999	**45,000**	45,000
5⅛%	April 1, 2001	**15,000**	15,000
5⅞%	May 1, 2002	**35,000**	35,000
6⅝%	February 15, 2003	**40,000**	40,000
7¾%	March 15, 2004	**45,000**	45,000
6½%	July 1, 2004	**15,000**	15,000
10¾%	August 15, 2004	**44,571**	46,064
8.85%	February 15, 2005	**35,000**	35,000
9½%	August 15, 2005	**70,000**	70,000
6⅛%	July 1, 2007	**38,300**	38,300
6½%	July 1, 2007	**20,000**	20,000
7¾%	October 1, 2007	**50,000**	50,000
6⅝%	January 1, 2009	**7,500**	7,500
8⅜%	January 15, 2009	**100,000**	100,000
Variable Rate Series			
Floating rate			
	June 1, 2010	**30,000**	—
Adjustable rate			
	December 1, 2001	**10,000**	—
Total all series		**905,371**	866,864
Net unamortized discount		**(3,465)**	(2,279)
		901,906	864,585
Current portion		**(571)**	(50,064)
		$901,335	$814,521

The outstanding bonds are secured by a lien on substantially all of the Company's property and plant. Additional bonds may be issued under the mortgage as amended and supplemented in compliance with the provisions of the indenture agreement.

In June 1981, the Company sold $50 million of 14½% Series First Mortgage Bonds maturing in 1991, at 99.25% of par value. Proceeds from the issue were used to retire the $50 million of 10¼% Series First Mortgage Bonds which matured August 15, 1981.

In June 1981, the Company issued $30 million of First Mortgage Bonds to Prince George's County, Maryland, to support the public sale of the County's tax-exempt floating rate Pollution Control Revenue Bonds. The floating interest rate on the bonds, to be paid semiannually, is based upon an average of the weekly U.S. Treasury rates for each interest period using the higher of 66% of the 13-week United States Treasury Bill rate or 72% of the 30-year "constant maturity" Treasury Bond rate. The rate of interest is limited to a maximum of 12% and a minimum of 6% and the effective rate was approximately 9.85% during 1981. Also in June, the Company issued a $27 million bond anticipation note. The proceeds from the sale of the Bonds and the note were used to refund the previously outstanding $50 million bond anticipation notes (issued by the County and the Company in 1980 to finance the construction of pollution control equipment at the Chalk Point Generating Station) and to provide $7 million of additional interim pollution control financing. In August 1981, the Company refinanced the $27 million bond anticipation note with the proceeds from the issuance by the County of a like amount of tax-exempt municipal commercial paper (See Note 13).

In October 1981, the Company committed to the sale, by private placement, of $50 million of Adjustable Rate First Mortgage Bonds maturing in 2001. Closing took place on December 18, 1981, and the Company received proceeds of $10 million. Closing on, and the delivery of, the remaining $40 million is scheduled to take place not later than May 14, 1982. The initial rate of interest on the Bonds is 17.25%, which rate will be in effect through November 30, 1982. Thereafter, the interest rate will be adjusted on December 1 of each year, based upon 116% of the ten-year "constant maturity" United States Treasury Bond rate for the preceding three-month period ended October 31. The Bonds are nonrefundable for 13 years.

- 4⅝% Debentures

The balance of the debentures outstanding at December 31, 1981 mature on February 15, 1982 and are included in Long Term Debt Due Within One Year.

- **Notes Payable**

Notes payable consist of the following unsecured promissory notes:

	December 31, 1981	1980
	(Thousands of Dollars)	
8¼% note, due January 31, 1984	**$25,000**	$25,000
Borrowing under Eurodollar credit agreement, due May 30, 1983	—	25,000
Pollution Control Note—payable to Prince George's County, Maryland, due June 1, 1983, less $11,787,000 held in escrow	—	38,213
Installment note (payable in monthly installments of $85,000 plus interest at ½% above prime)	**4,050**	5,070
	29,050	93,283
Current Portion	**(1,020)**	(1,020)
	$28,030	$92,263

Terms of the 8¼% note require annual principal repayments of $3,000,000 each on January 31, 1980-1983. Such repayments may be deferred at the option of the Company. Deferred repayments bear interest at 8½%. The repayments due January 31, 1980, 1981 and 1982 have been deferred.

The Eurodollar credit agreement between the Company and a group of western European banks allows the Company to borrow up to an aggregate of $40 million through May 30, 1983. The interest rate applicable to each borrowing under the Agreement is based on the prevailing London Interbank Offered Rate. At December 31, 1981, the Company had no outstanding borrowings under this agreement.

In 1981 the Company established Potomac Electric Finance N.V., a wholly owned subsidiary incorporated under the laws of the Netherlands Antilles, in order to provide access to the Eurobond market should funds be available in such market on more favorable terms than in the domestic bond market.

(13) Short Term Debt

The Company's short term financing requirements have been satisfied through the sale of commercial promissory notes, bank borrowings and the sale of tax-exempt municipal commercial paper.

- **Commercial Promissory Notes**

Information concerning short term borrowings (principally commercial promissory notes) is set forth below (calculations of average amounts have been weighted by the amounts of notes outstanding):

	1981	1980	1979
	(Thousands of Dollars)		
Outstanding at end of period			
Aggregate face amount	**$ 98,630**	$ 50,150	$ 35,705
Weighted average effective interest rate	**12.50%**	19.03%	13.34%
Outstanding during the period			
Maximum aggregate face amount	**$120,725**	$ 91,976	$ 61,314
Average aggregate face amount	**$ 64,688**	$ 53,339	$ 34,122
Weighted average effective interest rate	**16.19%**	12.79%	10.76%

The Company has $112,000,000 in revolving credit agreements with a group of ten domestic banks and $36,000,000 of conventional unsecured bank line of credit agreements. As of December 31, 1981, the Company had no outstanding borrowings under either of these agreements. The Company maintains these borrowing arrangements to provide backup support for its outstanding commercial promissory notes and to permit short term borrowing flexibility. The revolving credit agreements and the arrangements for conventional unsecured lines of credit require the Company to make payments of commitment fees and/or maintain compensating balances. In general, compensating balances are maintained at a percentage of the unused amount of credit plus, in some instances, a percentage of any outstanding borrowings. The total amount of compensating balances maintained at December 31, 1981 was $2,045,000. Borrowings under the lines are at, or slightly above, the banks' prime lending rates depending upon the agreed levels of compensating balances or fees.

- **Pollution Control Notes**

In August 1981, Prince George's County, Maryland and the Company implemented a program to sell $27 million of tax-exempt municipal commercial paper. The proceeds from the sale were loaned to the Company and used to refinance a $27 million bond anticipation note issued in June 1981.

Principal and interest payments on the tax-exempt municipal commercial paper are guaranteed by the Company and the principal payments are backed by a tax-exempt revolving loan agreement with a group of banks. The average effective interest rates on the tax-exempt commercial paper (including the bond anticipation note) during 1981 and at December 31, 1981 were 8.16% and 7.09%, respectively.

(14) Commitments

The Company leases its general office building and certain data processing equipment, railroad rolling stock, motor vehicles and construction equipment under long term lease agreements. The lease of the general office building expires in 2002 and leases of equipment extend for periods of up to 15 years. Charges under such leases are accounted for as operating expenses or construction expenditures, as appropriate. Although certain of the leases are considered financing leases, the Company has treated all of the leases as operating leases for rate-making and financial reporting purposes. If the financing leases were capitalized, the Company would seek regulatory approval to employ such accounting in its determinations of the costs of service for rate-making purposes. Assuming the financing leases had been capitalized at the inception of the leases, the present values of the lease commitments would be approximately $35,000,000 and $34,000,000 at December 31, 1981 and 1980, respectively. If the financing leases had been capitalized, the related properties had been depreciated on a straight line basis and interest costs had been accrued on the outstanding lease liabilities, immaterial amounts of additional costs and expenses would have been reported for 1981, 1980 and 1979.

The approximate annual commitments under all leases, reduced by rentals to be received under subleasing arrangements, are $10,100,000 in 1982, $8,800,000 in 1983, $7,400,000 in 1984, $6,700,000 in 1985, $4,800,000 in 1986 and a total of $37,700,000 in the years thereafter.

Commitments for the purchase of materials and services associated with the Company's construction program aggregated approximately $213,000,000 at December 31, 1981. In addition, the Company has made various operating and construction commitments in connection with continuing environmental compliance programs, including agreements to construct certain pollution control facilities at estimated costs aggregating $29,000,000.

(15) Changes in Current Assets and Current Liabilities

An analysis of the changes in current assets and current liabilities excluding short term debt, as reported on the Statements of Source of Funds Invested in Property and Plant Construction, is as follows:

	1981	1980	1979
		(Thousands of Dollars)	
Current Assets—Increase (decrease)—			
Cash and short term investments	**$ (805)**	$ (2,350)	$ 841
Customer accounts receivable	**(6,149)**	19,226	7,510
Other accounts receivable	**(15,314)**	(2,576)	16,798
Materials and supplies	**(8,452)**	32,172	30,575
Other current assets	**1,436**	5,708	2,999
Current Liabilities—(Increase) decrease—			
Long term debt due within one year	**31,491**	(23,864)	7,563
Accounts payable and accrued payroll	**16,510**	(13,296)	(10,112)
Taxes accrued	**(12,352)**	(332)	(6,757)
Interest accrued	**2,310**	(1,020)	(1,692)
Project cancellation costs	**—**	21,425	—
Other current liabilities	**(2,291)**	(2,762)	(299)
Increase in current assets over current liabilities excluding short term debt	**$ 6,384**	$ 32,331	$ 47,426

(16) Quarterly Financial Summary (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	(Thousands of Dollars except Share Data)				
1981					
Operating Revenue	**$221,667**	**$218,744**	**$334,837**	**$225,262**	**$1,000,510**
Operating Expenses	**184,349**	**181,943**	**266,356**	**187,888**	**820,536**
Operating Income	**37,318**	**36,801**	**68,481**	**37,374**	**179,974**
Net Income	**18,645**	**18,059**	**49,734**	**23,234**	**109,672**
Earnings for Common Stock	**14,550**	**13,965**	**45,641**	**19,141**	**93,297**
Earnings per Common Share	**.34**	**.32**	**1.04**	**.43**	**2.14**
Dividends per Share	**.38**	**.40**	**.40**	**.40**	**1.58**
1980					
Operating Revenue	$171,613	$175,199	$300,782	$208,464	$856,058
Operating Expenses	138,316	141,374	235,017	170,456	685,163
Operating Income	33,297	33,825	65,765	38,008	170,895
Net Income	17,155	17,707	48,596	20,627	104,085
Earnings for Common Stock	13,435	13,991	44,817	16,531	88,774
Earnings per Common Share	.32	.33	1.06	.39	2.10
Dividends per Share	.35	.35	.38	.38	1.46
1979					
Operating Revenue	$173,698	$166,377	$230,736	$178,522	$749,333
Operating Expenses	144,422	135,398	180,977	145,923	606,720
Operating Income	29,276	30,979	49,759	32,599	142,613
Net Income	12,527	13,809	38,409	19,611	84,356
Earnings for Common Stock	9,540	10,823	34,990	15,889	71,242
Earnings per Common Share	.23	.26	.85	.38	1.73
Dividends per Share	.335	.335	.335	.35	1.355

The Company's sales of electric energy are seasonal and, accordingly, comparisons by quarter within a year are not meaningful.

The total of the four quarterly earnings per share may not equal the earnings per share for the year due to changes in the number of common shares outstanding during the year.

(17) Supplemental Data on Changing Prices (Unaudited)

- General

The following supplemental information is presented to comply with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33 entitled Financial Reporting and Changing Prices. The data shown must be viewed as an indication of the approximate effect of changing prices on the Company's results of operations rather than as a precise measure of the effects of such changes. The data are not intended to replace conventional historical cost-based reporting on the Company's financial position, changes in financial position and results of operations. The restated amounts of depreciation are thus not a current expense of doing business. Moreover, the replacement of the Company's existing plant assets would result in changes in other elements of the Company's cost of service, such as fuel and other operation and maintenance costs, which are not reflected in the following data. The Company cautions the readers of this supplemental information that the data are inherently imprecise in nature. The actual replacement of existing property and plant will take place over many years and replacement property will not necessarily have the same or similar characteristics as the property now in service.

For a regulated utility, it is not possible to predict (1) the additional revenues that might be realized from the recovery of increased depreciation charges and added requirements to achieve a fair return on investment on the assumption that the Company's entire productive capacity were replaced, (2) any possible savings resulting from reductions in certain operating expenses or (3) other changes resulting from the replacement of existing plant.

The excess of the cost of plant stated in terms of constant dollars or current cost over the historical original cost of plant is not presently reflected in rates as depreciation. However, the regulatory commissions are required by law to provide the Company a reasonable opportunity to earn a fair rate of return on the new plant investments which are required to replace existing plant facilities at the time replacement of facilities actually occurs. The excess of the constant dollar or current cost amounts over historical cost for the current year is shown as a "reduction to net recoverable cost."

To properly reflect the economics of rate regulation, the "reduction to net recoverable cost" and the additional provision for depreciation in the Statement of Income from Continuing Operations should be offset by the gain from the decline in purchasing power of net monetary amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while issuers of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to debt securities and preference and preferred shares which have been used to finance a portion of the Company's

Statement of Income from Continuing Operations Adjusted for Changing Prices
For the Year Ended December 31, 1981

	Conventional Historical Cost (As Reported in the Financial Statements)	Constant Dollar Basis (Average 1981 Dollars)	Current Cost Basis (Average 1981 Dollars)
	(Thousands of Dollars)		
Operating Revenue	$1,001,000	$1,001,000	$1,001,000
Operating Expense:			
Operation	526,000	526,000	526,000
Maintenance	64,000	64,000	64,000
Depreciation and amortization	78,000	174,000	175,000
Federal income tax	67,000	67,000	67,000
Other taxes	85,000	85,000	85,000
Other income, net	(11,000)	(11,000)	(11,000)
Interest charges	82,000	82,000	82,000
	891,000	987,000	988,000
Income from continuing operations (excluding reduction to net recoverable cost)	$ 110,000	$ 14,000*	$ 13,000
Increase in specific prices (current cost) of Property and Plant held during the year**			$ 340,000
Reduction to net recoverable cost		$ (80,000)	(114,000)
Effect of increase in general price level			(305,000)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(79,000)
Gain from decline in purchasing power of net amounts owed		110,000	110,000
Net gain		$ 30,000	$ 31,000

*Including the reduction to net recoverable cost, the losses from continuing operations on a constant dollar basis would have been $66 million for 1981 and $121 million for 1980.

**At December 31, 1981, current cost of Property and Plant, Net of Accumulated Depreciation, was $4.5 billion, while historical cost or net cost recoverable through depreciation was $2.1 billion.

investment in Property and Plant. Preference and preferred shares are considered monetary items since all such shares are subject to redemption at fixed prices. Since the depreciation charges on plant have been limited to historical costs for rate-making purposes, the Company does not have the opportunity to realize a holding gain on such debt and current rates reflect only the embedded or average cost of debt capital.

The current year's provisions for depreciation on the constant dollar and current cost amounts of Property and Plant were determined by applying the Company's composite depreciation rates to the indexed depreciable plant investment.

Fuel inventories and the cost of fuel used in generation have not been restated. The regulatory commissions permit the Company to include its actual cost of fuel in rates currently. Thus, fuel inventories are effectively monetary assets and have been treated as such.

As prescribed in FASB Statement No. 33, income taxes were not adjusted.

- **Constant Dollar Data**

As required by FASB Statement No. 33, constant dollar amounts represent historical costs stated in terms of dollars of equivalent purchasing power, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Constant dollar amounts are not indicative of the costs of replacing specific assets. Rather such amounts are the result of the mechanical application of generalized price level indices. For purposes of the constant dollar reporting, Property and Plant (comprised of Electric Plant in Service, Construction Work in Progress and Electric Plant Held for Future Use) were adjusted by applying the CPI-U to the historical costs of plant by vintage year in order to restate the balances to average 1981 dollars.

- **Current Cost Data**

Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present. Such amounts differ from constant dollar determinations to the extent that specific prices have increased more or less rapidly than the rate of increase in the Consumer Price Index. The current cost of property and plant, determined by indexing surviving plant using the Handy-Whitman Index of Public Utility Construction Costs, represents an estimate of the cost of replacing existing plant assets.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

	1981	1980	1979	1978	1977
	(Thousands of Dollars except Share Data) (Average 1981 Dollars)				
Historical Information Adjusted for General Inflation					
Operating revenue	**$1,001,000**	$945,000	$938,000	$997,000	$998,000
Income from continuing operations (excluding reduction to net recoverable cost)	**$ 14,000**	$ 32,000	$ 29,000		
Income (loss) per common share (after dividend requirements on preferred and preference stock and excluding reduction to net recoverable cost)	**$ (.05)**	$ .36	$ .29		
Net assets at year-end at net recoverable cost	**$ 745,000**	$769,000	$813,000		
Current Cost Information					
Income from continuing operations (excluding reduction to net recoverable cost)	**$ 13,000**	$ 25,000	$ 13,000		
Income (loss) per common share (after dividend requirements on preferred and preference stock and excluding reduction to net recoverable cost)	**$ (.07)**	$ .22	$ (.06)		
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	**$ 79,000**	$159,000	$178,000		
Net assets at year-end at net recoverable cost	**$ 745,000**	$769,000	$813,000		
Gain from decline in purchasing power of net amounts owed	**$ 110,000**	$157,000	$187,000		
Cash dividends declared per common share	**$ 1.57**	$ 1.59	$ 1.68	$ 1.85	$ 1.91
Market price per common share at year-end	**$ 14.01**	$ 13.07	$ 13.62	$ 18.29	$ 23.06
Average Consumer Price Index (1967 = 100)	**272.4**	246.8	217.4	195.4	181.5

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

As an investor-owned electric utility, PEPCO is capital intensive, with an investment in property and plant of approximately $3 for each $1 of annual operating revenue. The costs of owning the investment in property and plant (depreciation, taxes and return on investment) accounted for 42% of the Company's operating revenues in 1981. Net fuel and interchange costs were 42% of operating revenues, with labor, materials and other costs accounting for the remaining 16%.

Liquidity

Internally generated funds from operations, after dividends, were $425.3 million for the period 1979-1981, or approximately 50% of total capital requirements for construction, debt maturities, sinking fund obligations and other requirements, including working capital. A total of $302.2 million was obtained from sales of common stock through the Company's Shareholder Dividend Reinvestment Plan, Employee Stock Ownership Plan and Thrift Savings Plan, sales of First Mortgage Bonds and Pollution Control Bonds, intermediate term borrowings and sales of Redeemable Preference and Preferred Stock. The Company is scheduled to receive the proceeds from an additional $40,000,000 of its Adjustable Rate First Mortgage Bonds in 1982. Interim financing was provided by the issuance of short term notes.

The coverage of fixed charges, before income taxes, and coverage of dividends on preference and preferred stock, after income taxes, for the period 1979-1981 were as follows:

Year	Coverage of Fixed Charges	Coverage of Fixed Charges and Dividends on Preference and Preferred Stock
1979	2.93	1.84
1980	3.37	1.96
1981	**3.02**	**1.89**

Short term interim financing requirements are met principally through sales of commercial promissory notes. At December 31, 1981, outstanding commercial promissory notes totalled $98.6 million. Additionally, at December 31, 1981, the Company had $27 million outstanding under a program implemented by the Company and Prince George's County, Maryland during 1981 to sell tax-exempt municipal commercial paper. The proceeds from these sales have been used to refinance a $27 million bond anticipation note issued in June 1981. The Company has $112 million in domestic revolving credit agreements with banks and $36 million of conventional unsecured domestic bank lines of credit. At December 31, 1981, the Company could have had outstanding commercial promissory notes of up to $240 million, pursuant to a formula which has been adopted by the Securities and Exchange Commission. However, approval of the Virginia State Corporation Commission is required for total short term borrowings to exceed $200 million.

The Company also has a $40 million intermediate term Eurodollar credit agreement with a group of western European banks which expires in May 1983. At December 31, 1981, the Company had no outstanding borrowings under the agreement. During 1981 the Company established a wholly owned financing subsidiary in the Netherlands Antilles to permit access to the Eurobond market in order to expand financing flexibility.

Capital Resources

The Company's investment in property and plant, at original cost before accumulated depreciation, increased from $2.322 billion at December 31, 1978 to $2.733 billion at December 31, 1981. Funds invested in property and plant construction, excluding AFUDC, were $555.9 million for the period 1979-1981. Such amount included $95 million of expenditures on pollution control projects required to comply with federal, state and local government environmental regulations. Capital requirements during the period also included $178.3 million of debt maturities and sinking fund requirements. Total capital requirements for construction, debt maturities, sinking funds and other requirements, including working capital, were $851.9 million for the three year period.

The Company's December 31, 1981 capital structure, excluding short term debt and long term debt due within one year, consisted of 48.4% long term debt, 7.2% preferred stock, 4.3% redeemable preference and preferred stock and 40.1% common equity. The Company's objective is to conduct its external financing program to maintain a common stock equity component in the 40% range.

The Company estimates that its kilowatt hour sales and peak load will grow at a compound annual rate of 1% to 2% during the period 1982-1991. The Company's present generating capability of 5,037 MW provided a reserve of approximately 21% against the peak load of 4,152 MW experienced during the summer of 1981.

Construction expenditures are projected at $530 million for the period 1982-1984. The Company also estimates a total of $211 million to meet requirements during the three-year period for bond and note retirements including long term debt due within one year, outstanding short term debt at December 31, 1981 and sinking funds. Additional amounts will be required for working capital and other needs. Approximately $437 million is expected to be available from depreciation and amortization charges and income tax deferrals. The remainder of the Company's capital requirements will be met from external sources and from retained income.

Results of Operations

- **Operating Revenue**

Operating revenue increased from $749.3 million in 1979 to $1 billion in 1981, reflecting kilowatt hour sales increases of 5.6% in 1980 and 1.3% in 1981. The 1980 increase reflects the extraordinarily severe summer weather. Average revenue per kilowatt hour (the total of base rates and fuel charges) increased from 4.71¢ per KWH in 1979 to 5.89¢ per KWH in 1981, an average annual increase of 11.9%.

Base rate increases granted during the 1979-1981 period totalled $123.7 million, as shown below:

	Total	Maryland	District of Columbia	Virginia	Wholesale
	(Millions of Dollars)				
1979	$ 29.1	$14.1	$ 5.9	$ —	$ 9.1
1980	57.3	15.9	35.5	1.3	4.6
1981	**37.3**	**11.4**	**23.3**	**.7**	**1.9**
	$123.7	$41.4	$64.7	$2.0	$15.6

The Company has a three year contract expiring on December 31, 1982 with its wholesale customer, Southern Maryland Electric Cooperative, Inc. The contract provides for a rate increase of $1.0 million, effective January 1, 1982.

The Company has a $95.5 million rate application pending in Maryland on which a decision is expected in April 1982. A $3.2 million rate application is pending in Virginia. Under the Virginia statutory provisions, a decision on the application is expected in May 1982.

Net fuel and interchange costs are billed to customers under separately stated fuel rates.

- **Operating Expenses**

Net fuel and interchange costs were as follows for the period 1979-1981:

	1981	1980	1979
	(Millions of Dollars)		
Fuel expense	**$348.9**	$358.6	$360.1
Net interchange	**72.0**	(59.6)	(86.8)
Net fuel and interchange costs	**$420.9**	$299.0	$273.3

Power generation was as follows (billions of KWH):

	1981	1980	1979
Total generation	**15.6**	18.1	18.5
Generation for system sales	**16.8**	16.6	15.7

The Company's increasing usage of coal was a significant contributor to the relative stability in the average revenue per kilowatt hour during the 1979-1981 period. As shown below, by burning more coal and less oil in a period of a rapid rise in unit oil costs, increases in the system average fuel cost have been relatively limited.

	Percent of Fuel Burned		Unit Cost of Fuel Burned		
	Oil	Coal	Oil	Coal	System Average
			(Per MBTU)		
1979	24.2%	75.8%	$2.81	$1.52	$1.86
1980	15.3	84.7	4.06	1.61	2.02
1981	**11.8**	**88.2**	**4.65**	**1.88**	**2.26**

Other operating expenses, excluding the net costs of fuel and interchange, were as follows:

	1981	1980	1979
	(Thousands of Dollars)		
Other operation and maintenance	**$169,914**	$157,724	$138,456
Depreciation and amortization	**78,070**	74,347	68,562
Income taxes	**74,511**	84,791	58,232
Other taxes	**77,142**	69,280	68,137
	$399,637	$386,142	$333,387

The increases in other operation and maintenance expenses reflect increases in the prices of materials, supplies and services and increases in the costs of wages and benefits. Operation and maintenance expenses have been reduced by the amortization of the gains from the sales of nuclear fuel and fuel contract rights.

The changes in depreciation and amortization expenses reflect the adoption in 1980 of new depreciation rates for the Company's District of Columbia, Virginia and wholesale business and increases in depreciable plant investment.

Depreciation and amortization expenses include amortization of the costs of the abandoned Douglas Point Nuclear Generating Station project. The Company is seeking regulatory approval to amortize the costs of the Dickerson Generating Station Unit No. 4 construction project.

Income taxes reflect the use of normalization accounting for substantially all income tax timing differences, including in 1980 the abandonment loss incurred as a result of the cancellation of the Dickerson project. Approximately 85% of the Company's investment tax credits were normalized under the deferral method in the 1979-1981 period.

- **Other Income, Interest Charges and Allowance for Funds Used During Construction**

Other income was $11.3 million in 1981, $6.9 million in 1980 and $8.6 milllion in 1979.

Interest charges were $81.6 million in 1981, $73.7 million in 1980 and $66.8 million in 1979. As a result of using lower cost pollution control financing to raise a substantial portion of the new debt requirements, the Company's embedded cost of long term debt has been relatively stable: 6.98% in 1979, 7.18% in 1980 and 7.41% in 1981. Annualized interest costs for year-end long term debt increased from approximately $65 million at December 31, 1979 to approximately $70 million at December 31, 1981.

Other income and interest charges reflect the 1979 adoption of AFUDC accounting for a portion of the Construction Work in Progress (CWIP) investment which is allocable to the Company's District of Columbia business and the CWIP relating to its wholesale business and the 1980 adoption of AFUDC accounting for a portion of the Company's Maryland CWIP investment. The Company estimates that the annual amounts of capitalized AFUDC will average $6 million during the period 1982-1984.

- **Dividends on Preference and Preferred Stock**

Dividends on preference and preferred stock were $16.4 million in 1981, $15.3 million in 1980 and $13.1 million in 1979. Such amounts reflect dividend requirements on the 7¾% preference stock sold in 1978, the 8.46% preferred stock sold in 1979 and the 8.75% preferred stock sold in 1980. The embedded cost of preference and preferred stock increased from 7.15% at December 31, 1978 to 7.52% at December 31, 1981.

- **Earnings**

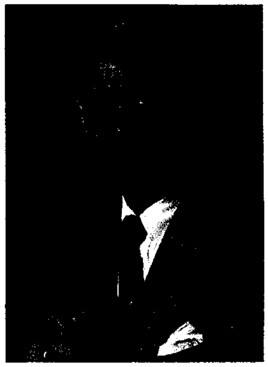
Net income, earnings for common stock and earnings per common share for the years 1981, 1980 and 1979 were as follows:

	1981	1980	1979
	(Thousands of Dollars except Share Data)		
Net income	**$109,672**	$104,085	$84,356
Earnings for common stock.......	**$ 93,297**	$ 88,774	$71,242
Average common shares outstanding (000's)	**43,650**	42,243	41,158
Earnings per common share	**$2.14**	$2.10	$1.73

Supplemental data which sets forth the approximate effect of changing prices on the Company's results of operations for 1980 and 1981 is presented in Note 17 of the Notes to Financial Statements.


H. LOWELL DAVIS


EDWARD F. MITCHELL


PETER H. BENZIGER


PAUL DRAGOUMIS


ALAN G. KIRK II

Directors

Vincent C. Burke, Jr.[1]
Chairman of the Board
The Riggs National Bank
of Washington, D.C.

John J. Byrne[2,3]
Chairman of the Board
GEICO Corporation
Washington, D.C.

A. James Clark[2,3]
President
The George Hyman
Construction Company
Bethesda, Maryland

H. Lowell Davis
Executive Vice President
Potomac Electric Power
Company

George Dobbs, M.D.[2,4]
Physician
Retired—Formerly with the
United States Federal
Trade Commission

Theodore R. Hagans, Jr.[2,4]
Chairman of the Board
and President
Hagans Enterprises
Corporation
Washington, D.C.
(Real estate)

Edwin K. Hoffman[1]
Chairman of the Board
Woodward & Lothrop
Washington, D.C.
(Retail department stores)

Daniel L. Hurson[2,4]
Chairman of the Board
Acacia Mutual Life
Insurance Company
Washington, D.C.

Edward F. Mitchell
Executive Vice President
Potomac Electric Power
Company

Melvin M. Payne[1,2]
Chairman of the Board
National Geographic
Society
Washington, D.C.

Flaxie M. Pinkett[3]
Chairman of the Board
and President
John R. Pinkett, Inc.
(Real estate and
insurance)

W. Reid Thompson[2]
Chairman of the Board
and President
Potomac Electric Power
Company

[1]Member of Compensation Committee of which Dr. Payne is Chairman
[2]Member of Executive Committee of which Mr. Thompson is Chairman
[3]Member of Pension Committee of which Mr. Clark is Chairman
[4]Member of Audit Committee of which Mr. Hurson is Chairman

Officers

W. Reid Thompson
Chairman of the Board
and President

H. Lowell Davis
Executive Vice
President—
Financial and Human
Resources

Edward F. Mitchell
Executive Vice
President—Operations

Peter H. Benziger
Senior Vice President—
Generation

Paul Dragoumis
Senior Vice President—
Strategic Services

Alan G. Kirk II
Senior Vice President and
General Counsel

Victor A. Bell, Jr.
Vice President and
Treasurer

Donald R. Briggs
Vice President—
Production

Stanley J. Bright
Vice President and
Comptroller

Edward A. Caine
Vice President—
Regulatory Law and
Deputy General Counsel

James S. Culp
Vice President—Investor
Relations

John M. Derrick, Jr.
Vice President—
Customer Services

David W. Masters
Vice President—Electric
System

Charles W. Nicolson
Vice President—Fuels

Frank A. Peluso
Vice President—
Human Resources

William F. Schmidt
Vice President—
Rates and
Regulatory Practices

B. Thomas Haynes
General Auditor

Thomas E. O'Dea
Secretary and Assistant
Treasurer

Mary T. Howard
Assistant Secretary

Lance E. Cooper
Assistant Treasurer

Peyton G. Middleton, Jr.
Assistant Treasurer

David R. Oliver, Jr.
Assistant Comptroller

Dennis R. Wraase
Assistant Comptroller

Fiscal Agents Common Stock, Convertible Preferred Stock and All Series of Preferred Stock

Transfer Agents and Registrars
Chemical Bank
New York, N.Y.

The Riggs National Bank
of Washington, D.C.

Debentures

Trustee, Paying Agent and Registrar
The Chase Manhattan
Bank, N.A.
New York, N.Y.

Bonds

Trustee
The Riggs National Bank
of Washington, D.C.

Paying Agents and Registrars
The Riggs National Bank
of Washington, D.C.

Bankers Trust Company
New York, N.Y.

Stock Exchange Listings

The Company's common stock, convertible preferred stock and certain series of its bonds are listed on the New York and the Philadelphia stock exchanges. The Company's 1970, 1971 and 1979 series of preferred stock are listed on the New York Stock Exchange, and its 1957, 1958, 1965 and 1969 series of preferred stock are listed on the Philadelphia Stock Exchange, Inc.

New York Stock Exchange Symbol: **POM**

Additional Information

The Annual Report to the Securities and Exchange Commission on Form 10-K is available to shareholders and may be obtained by writing to the Company, Attention: James S. Culp, Vice President—Investor Relations.

A supplement to this annual report containing additional financial and operating data is available to shareholders. For a copy, please address your request to Mr. Culp.

General Offices

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202-872-2000

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Potomac Electric Power Company
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POTOMAC ELECTRIC POWER COMPANY • 1900 PENNSYLVANIA AVENUE, N.W., WASHINGTON, D.C. 20068
WATER AND LAND USE DEPARTMENT (202) 872-2000

August 5, 1982

Ms. Shirley Bulkin (3AW32)
U.S. EPA Region III, Curtis Building
6th and Walnut Streets
Philadelphia, Pennsylvania 19106

Dear Ms. Bulkin:

In accordance with the EPA regulations 40 CFR 264 Subpart H and the specific requests dated June 1, 1982 for the Benning Road and Buzzard Point Generating Stations with EPA RCRA identification numbers DCD000819516 and DCD000819508, respectively, PEPCO submits the Chief Financial Officer's letter (attached) to demonstrate both liability coverage and assurance of closure care. The Chief Financial Officer's letter and PEPCO's financial statements at page 16 of the attached annual report have been certified in the attached Price Waterhouse letter dated July 12, 1982.

There have been significant changes to the RCRA Subtitle C regulations in 40 CFR 261-264, since the interim status notification made in November, 1980 for these facilities which now renders most of their activities non-hazardous. Further, it should be recognized that neither facility contains any disposal activity; therefore, the closure and post-closure responsibilities are viewed by PEPCO as limited to those costs related to the decontamination of the storage buildings at Benning Road and Buzzard Point Stations.

At Benning Road Station, DCD000819516, the closure cost is estimated to have a present value of $53,000 for the removal and disposal of PCB contaminated materials (assuming that PCBs will be covered by RCRA in the future) when the storage building is finally closed (estimated to be closed in approximately 35 years). The clean up of soils and areas surrounding the temporary storage location at Buzzard Point is estimated at $10,000.

As was discussed per telephone conversation with Mr. William Schremp on July 6, 1982, PEPCO's submission was unavoidably delayed by the implementation of our strike contingency plan during a recent labor dispute. Thank you for your cooperation in this effort.

Sincerely,

L. Stephen Guiland
Manager

LSG:jmm

Price Waterhouse

1801 K STREET, N.W.
WASHINGTON, DC 20006
202 296-0800

July 12, 1982

To the Board of Directors of
Potomac Electric Power Company

We have examined the financial statements of Potomac Electric Power Company (the "Company") for the years ended December 31, 1981 and 1980, and have issued our unqualified opinion thereon dated January 18, 1982. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such other auditing procedures as we considered necessary in the circumstances.

We obtained an analysis prepared by the Company which derived "tangible net worth" at December 31, 1981, as specified in Subpart H of 40 CFR Part 264.141, from the 1981 audited financial statements. We ascertained that the Company's analysis was mathematically correct, compared the computed amount of tangible net worth of $1,142,257,000 on the Company's analysis with the amount appearing under Item 7 on page 3 of the Company's July 12, 1982 letter to the Environmental Protection Agency and found them to be in agreement.

As further required by Subpart H of 40 CFR Parts 264 and 265, we have determined that as of December 31, 1981, at least 90% of the Company's total assets were located in the United States.

In connection with the above procedures, nothing came to our attention that caused us to believe that the tangible net worth should be adjusted or that the percentage of the Company's assets located in the United States is less than 90% of total assets.

Price Waterhouse

POTOMAC ELECTRIC POWER COMPANY
1900 PENNSYLVANIA AVE., N. W.
WASHINGTON, D. C. 20068

H. LOWELL DAVIS
EXECUTIVE VICE PRESIDENT

Mr. Peter Bibko (3RA00)
Regional Administrator
EPA, Region III
6th and Walnut Streets
Philadelphia, Pennsylvania 19106

Dear Mr. Bibko:

I am the chief financial officer of Potomac Electric Power Company (PEPCO), 1900 Pennsylvania Avenue, N.W., Washington, D.C. 20068. This letter is in support of the use of the financial test to demonstrate financial responsibility for liability coverage and closure care as specified in Subpart H of 40 CFR Parts 264 and 265.

The owner or operator identified above is the owner or operator of the following facilities for which liability coverage is being demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265:

1. The owner or operator identified above owns or operates the following facilities for which financial assurance for closure or post-closure care is demonstrated through the financial test specified in Subpart H of 40 CFR Parts 264 and 265. The current closure and/or post-closure cost estimates covered by the test are shown for each facility:

EPA RCRA #DCD000819516
Benning Road Generating Station
3300 Benning Road, N.E.
Washington, D.C. 20019
$53,000 - Closure Cost

EPA RCRA #DCD000819508
Buzzard Point Generating Station
1st and V Streets, S.W.
Washington, D.C. 20024
$10,000 - Closure Cost

/

2. The owner or operator identified above guarantees, through the corporate guarantee specified in Subpart H of 40 CFR Parts 264 and 265, closure and post-closure care of the following facilities owned or operated by its subsidiaries. The current cost estimates for the closure or post-closure care so guaranteed are shown for each facility:

None

3. In States where EPA is not administering the financial requirements of Subpart H of 40 CFR Parts 264 and 265, this owner or operator is demonstrating financial assurance for the closure or post-closure care of the following facilities through the use of a test equivalent or substantially equivalent to the financial test specified in Subpart H of 40 CFR Parts 264 and 265. The current closure and/or post-closure cost estimates covered by such a test are shown for each facility:

None

4. The owner or operator identified above owns or operates the following hazardous waste management facilities for which financial assurance for closure or, if a disposal facility, post-closure care, is not demonstrated either to EPA or a State through the financial test or any other financial assurance mechanism specified in Subpart H of 40 CFR Parts 264 and 265 or equivalent or substantially equivalent State mechanisms. The current closure and/or post-closure cost estimates not covered by such financial assurance are shown for each facility:

None

This owner or operator is required to file a Form 10K with the Securities and Exchange Commission (SEC) for the latest fiscal year.

The fiscal year of this owner or operator ends on December 31. The figures for the following items marked with an asterisk are derived from this owner's or operator's independently audited, year-end financial statements for the latest completed fiscal year, ended December 31, 1981.

POTOMAC ELECTRIC POWER COMPANY

ALTERNATIVE II

1. Sum of current closure and post-closure cost estimates (total of all cost estimates listed above)	...$63,000		
2. Amount of annual aggregate liability coverage to be demonstrated	...$2,000,000		
3. Sum of lines 1 and 2	...$2,063,000		
4. Current bond rating of most recent issuance and name of rating service (Information in lines 4,5, and 6 pertain to a first mortgage bond, PEPCO's most recently issued rated bond.)	...Aa, Moody's		
5. Date of issuance of bond	...June 18, 1981		
6. Date of maturity of bond	...June 15, 1991		
*7. Tangible net worth	...$1,142,257,000		
8. Total assets in the U.S. (required only if less than 90% of assets are located in the U.S.)	... N/A		

	Yes	No
9. Is line 7 at least $10 million?	X	
10. Is line 7 at least 6 times line 3?	X	
*11. Are at least 90% of assets located in the U.S.? If not, complete line 12	X	
12. Is line 8 at least 6 times line 3?	NA	

I hereby certify that the wording of this letter is identical to the wording specified in 40 CFR 264.151(g) as such regulations were constituted on the date shown immediately below.

Very truly yours,

H. L. Davis

H. Lowell Davis

July 12, 1982

1

PO: Linda Holden

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION III
841 CHESTNUT BUILDING
PHILADELPHIA, PENNSYLVANIA 19107

92 FEB -4 AM 10:37

RECEIVED

PERO

In Re:	)	Docket No. RCRA-III-224
	)	
Potomac Electric Power Company	)	Complaint, Compliance
1900 Pennsylvania Avenue, N.W.	)	Order and Notice of
Washington, DC 20068	)	Opportunity for Hearing
	)	
RESPONDENT	)	

File under
DCD000819508

I. INTRODUCTION

This Complaint, Compliance Order and Notice of Opportunity for Hearing ("Complaint") is filed pursuant to Sections 3008(a) and (g) of the Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. §§ 6928(a) and (g), and the Consolidated Rules of Practice Governing the Administrative Assessment of Civil Penalties and the Revocation or Suspension of Permits ("Consolidated Rules of Practice"), 40 C.F.R. Part 22. The Complainant is the Associate Division Director for RCRA Programs, Hazardous Waste Management Division, United States Environmental Protection Agency, Region III ("EPA"). Respondent is Potomac Electric Power Company with facilities located in Washington, District of Columbia; Alexandria, Virginia; and Newburg and Aquasco, Maryland ("Respondent").

Respondent is hereby notified of EPA's determination that it has violated the District of Columbia Hazardous Waste Management Regulations ("DCMR"), the Virginia Hazardous Waste Management Regulations ("VHWMR"), the Code of Maryland Annotated Regulations ("COMAR"), Subtitle C of RCRA, 42 U.S.C. §§ 6921-6939b, and the regulations thereunder, 40 C.F.R. Parts 260-270.

On March 22, 1985, pursuant to Section 3006(b) of RCRA, 42 U.S.C. § 6926(b), and 40 C.F.R. Part 271, Subpart A, the District of Columbia was granted final authorization to administer a state hazardous waste management program in lieu of the Federal hazardous waste management program established under Subtitle C of RCRA, 42 U.S.C. §§ 6921-6939b. The provisions of the District of Columbia hazardous waste management program, through this final authorization, have become requirements of Subtitle C of RCRA and are, accordingly, enforceable by EPA pursuant to Sections 3008(a) and (g) of RCRA, 42 U.S.C. §§ 6928(a) and (g). The District of Columbia's authorized hazardous waste management program regulations are set forth in the DCMR and will be cited as "20 DCMR" followed by the applicable section of the regulations.

On December 18, 1984, pursuant to Section 3006(b) of RCRA, 42 U.S.C. § 6926(b), and 40 C.F.R. Part 271, Subpart A, the Commonwealth of Virginia ("Virginia") was granted final authorization to administer a state hazardous waste management program in lieu of the Federal hazardous waste management program established under Subtitle C of RCRA, 42 U.S.C. §§ 6921-6939b. The provisions of the Virginia hazardous waste management program, through this final authorization, have become requirements of Subtitle C of RCRA and are, accordingly, enforceable by EPA pursuant to Sections 3008(a) and (g) of RCRA, 42 U.S.C. §§ 6928(a) and (g). Virginia's authorized hazardous waste management program regulations are set forth in the VHWMR.

On February 11, 1985, pursuant to Section 3006(b) of RCRA, 42 U.S.C. § 6926(b), and 40 C.F.R. Part 271, Subpart A, the State of Maryland ("Maryland") was granted final authorization to administer a state hazardous waste management program in lieu of the Federal hazardous waste management program established under Subtitle C of RCRA, 42 U.S.C. §§ 6921-6939b. The provisions of the Maryland hazardous waste management program, through this final authorization, have become requirements of Subtitle C of RCRA and are, accordingly, enforceable by EPA pursuant to Sections 3008(a) and (g) of RCRA, 42 U.S.C. §§ 6928(a) and (g). Maryland's authorized hazardous waste management program regulations are set forth in the COMAR, Title 10.51. These regulations have been recodified at COMAR, Title 26.13. Because such recodification has not been authorized by EPA, citations in this Complaint are to COMAR, Title 10.51.

Neither the District of Columbia, Virginia nor Maryland has been granted authorization to administer its hazardous waste management program in lieu of certain provisions of the Hazardous and Solid Waste Amendments ("HSWA") enacted on November 8, 1984 (Pub. L. No. 98-616), which amended Subtitle C of RCRA. These provisions are enforceable in the District of Columbia, Virginia and Maryland exclusively by EPA.

To the extent that factual allegations or legal conclusions set forth in this Complaint are based on provisions of the District of Columbia's, Virginia's or Maryland's authorized hazardous waste management program regulations, those provisions are cited as authority for such allegations or conclusions. Any analogous provisions of the Federal hazardous waste management program under Subtitle C of RCRA are cited thereafter for convenience. Factual allegations or legal conclusions based solely on provisions of the Federal hazardous waste management program added or amended by HSWA cite those federal provisions as authority for such allegations or conclusions.

EPA has given the District of Columbia, Virginia and Maryland prior notice of the issuance of this Complaint in accordance with Section 3008(a)(2) of RCRA, 42 U.S.C. § 6928(a)(2).

II. COMPLAINT

FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. Respondent is chartered under the laws of the District of Columbia and is also a corporation doing business in the District of Columbia, Virginia and Maryland and is a "person" as defined in 20 DCMR § 4000.1(a), VHWMR § 2.134 and COMAR § 10.51.03B(51) (40 C.F.R. § 260.10).

2. Respondent owns and operates businesses located at 3300 Benning Road, N.E., Washington, District of Columbia 20019 ("Benning Road Facility"); 1st and V Streets, S.W., Washington, District of Columbia 20064 ("Buzzard Point Facility"); 1400 North Royal Street, Alexandria, Virginia 22314 ("Potomac River Facility"); Route 301 and Potomac River, Newburg, Maryland 20805 ("Morgantown Facility") and Chalk Point (Eagle Harbor Road), Aquasco, Maryland 20753 ("Chalk Point Facility"). These facilities are electric power plants that generate steam by burning fossil fuel to produce electricity to serve the Washington Metropolitan area.

3. On August 18, 1980, Respondent submitted to EPA a Notification of Hazardous Waste Activity ("Notification") for the Benning Road Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a generator and the Benning Road Facility as a treatment, storage and disposal facility of hazardous waste bearing the following EPA hazardous waste numbers: F001, U210 and U188. Each of these wastes is a "hazardous waste" as that term is defined in 20 DCMR § 4000.1(a) (40 C.F.R. §§ 260.10, 261.31 and 261.33).

4. On November 19, 1980, Respondent submitted to EPA a Part A permit application ("Part A") for the Benning Road Facility, pursuant to 20 DMCR §§ 4000.1 (b) and 4007.2 (d)-(h) (40 C.F.R. Part 270). Respondent stated in this Part A that it generated F001, U188, U210 wastes and hazardous waste bearing the EPA hazardous waste number D002. The process code information

Benning Road DCD000819516 MD Chalk Point MDD000731596
Buzzard Point DCD00819508

VA Potomac River Fac

submitted in this Part A indicated that Respondent stored F001, U188, U210 wastes and hazardous waste bearing the EPA hazardous waste number D002 in tanks; treated F001, U188 and U210 wastes by incineration; and treated hazardous waste in tanks bearing the EPA hazardous waste number D002. Each of these wastes is a "hazardous waste" as that term is defined in 20 DCMR § 4000.1(a) (40 C.F.R. § 260.10, 261.31 and 261.33).

5. On January 14, 1981, EPA acknowledged the Notification referred to in Paragraph 3 above and assigned the Benning Road Facility the EPA identification number DCD 000 819 516.

6. In a November 10, 1983 letter, EPA requested that Respondent submit to EPA, Respondent's Part B permit application ("Part B") for the Benning Road Facility.

7. In a January 17, 1984 letter, the Department of Consumer and Regulatory Affairs ("DCRA") requested that the Respondent submit to DCRA, Respondent's Part B for the Benning Road Facility.

8. In an April 4, 1984 letter to DCRA, Respondent requested the withdrawal of its Part A for the Benning Road Facility.

9. In a September 27, 1984 letter to Respondent, DCRA accepted Respondent's April 4, 1984 letter of withdrawal, referenced in Paragraph 8 above, and terminated Respondent's interim status for the Benning Road Facility.

10. On January 24, 1986, Respondent submitted to EPA a revised Notification for the Benning Road Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a burner of hazardous waste fuel in a utility boiler and a generator of hazardous waste bearing the EPA hazardous waste number F001.

11. Respondent does not have a permit or interim status under 20 DCMR § 4007.2(d)-(h) (Section 3005 of RCRA or 40 C.F.R. Part 270) to treat, store or dispose of hazardous waste at the Benning Road Facility.

12. With respect to the Benning Road Facility, Respondent is a "generator" as that term is defined in 20 DCMR § 4000.1(a) (40 C.F.R. § 260.10).

13. On August 18, 1980, Respondent submitted to EPA a Notification for the Buzzard Point Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a generator and the Buzzard Point Facility as a treatment, storage and disposal facility of

hazardous waste bearing the EPA hazardous waste numbers F001 and U210. Each of these wastes is a "hazardous waste" as that term is defined in 20 DCMR § 4000.1(a) (40 C.F.R. §§ 260.10, 261.31 and 261.33).

14. On November 19, 1980, Respondent submitted to EPA a Part A for the Buzzard Point Facility, pursuant to 20 DMCR §§ 4000.1(b) and 4007.2(d)-(h) (40 C.F.R. Part 270). Respondent stated in this Part A that it generated F001, U210 wastes and hazardous waste bearing the EPA hazardous waste number D002. The process code information submitted in this Part A indicated that Respondent stored F001, U210 wastes and hazardous waste bearing the EPA hazardous waste number D002 in tanks; and treated F001 and U210 wastes by incineration; and treated hazardous waste in tanks bearing the EPA hazardous waste number D002.

15. On January 14, 1981, EPA acknowledged the Notification referred to in Paragraph 13 above and assigned the Buzzard Point Facility the EPA identification number DCD 000 819 508.

16. In a November 10, 1983 letter, EPA requested that Respondent submit to EPA Respondent's Part B for the Buzzard Point Facility.

17. In a January 17, 1984 letter, DCRA requested that Respondent submit to DCRA Respondent's Part B for the Buzzard Point Facility.

18. In an April 4, 1984 letter to DCRA, Respondent requested the withdrawal of its Part A for the Buzzard Point Facility.

19. In a September 27, 1984 letter to Respondent, DCRA accepted Respondent's April 4, 1984 letter of withdrawal, referenced in Paragraph 18 above and terminated Respondent's interim status for the Buzzard Point Facility.

20. On February 28, 1986, Respondent submitted to EPA a revised Notification for the Buzzard Point Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a generator of hazardous waste bearing the EPA hazardous waste number F001.

21. Respondent does not have a permit or interim status under 20 DCMR §§ 4000.1(b) and 4007.2(d)-(h) (Section 3005 of RCRA or 40 C.F.R. Part 270) to treat, store or dispose of hazardous waste at the Buzzard Point Facility.

22. With respect to the Buzzard Point Facility, Respondent is a "generator" as that term is defined in 20 DCMR § 4000.1(a) (40 C.F.R. § 260.10).

23. On August 18, 1980, Respondent submitted to EPA a Notification for the Potomac River Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a generator and the Potomac River Facility as a treatment, storage or disposal facility of hazardous waste bearing the following EPA hazardous waste numbers: F001, U133, U210, U220 and U226. Each of these wastes is a "hazardous waste" as that term is defined in VHWMR § 2.80 and Appendix 3.1 of § 3.00 of VHWMR (40 C.F.R. §§ 260.10, 261.31 and 261.33).

24. On November 19, 1980, Respondent submitted to EPA a Part A for the Potomac River Facility. Respondent stated in this Part A that it generated F001, U133, U210, U220, U226 wastes and hazardous waste bearing the EPA hazardous waste number D002. The process code information submitted in this Part A indicated that the Respondent stored F001, U133, U210, U220, U226 wastes and hazardous waste bearing the EPA hazardous waste number D002 in tanks; treated F001, U133, U210, U220 and U226 wastes by incineration; and treated hazardous waste in tanks bearing the EPA hazardous waste number D002.

25. On January 14, 1981, EPA acknowledged the Notification referred to in Paragraph 23 above and assigned the Potomac River Facility the EPA identification number VAD 000 731 588.

26. In a September 15, 1983 letter, the Virginia Department of Waste Management ("VDWM") requested that Respondent submit to VDWM Respondent's Part B for the Potomac River Facility.

27. On July 10, 1984, VDWM terminated Respondent's interim status for its Potomac River Facility, pursuant to VHWMR § 11.00 (40 C.F.R. Part 270), based on an April 4, 1984 letter request submitted by Respondent to VDWM. In the April 4, 1984 letter, Respondent indicated that it would not submit a Part B for the Potomac River Facility. In that letter, Respondent stated that hazardous waste was not stored or treated at the Potomac River Facility.

28. On January 24, 1986, Respondent submitted to EPA a revised Notification for the Potomac River Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a burner of hazardous waste fuel in a utility boiler and a generator of hazardous waste bearing the EPA hazardous waste number F001.

29. Respondent does not have a permit or interim status under VHWMR § 11.00 (Section 3005 of RCRA or 40 C.F.R. Part 270) to treat, store or dispose of hazardous waste at the Potomac River Facility.

30. With respect to the Potomac River Facility, Respondent is a "generator" as that term is defined in VHWMR § 2.77 (40 C.F.R. § 260.10).

31. On August 18, 1980, Respondent submitted to EPA a Notification for the Morgantown Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a generator and the Morgantown Facility as a treatment, storage and disposal facility of hazardous waste bearing the following EPA hazardous waste numbers: F001, U133, U188, U210 and U226. Each of these wastes is a "hazardous waste" as that term is defined in COMAR §§ 10.51.01.03B(26) and 10.51.02.15, 10.51.02.17F (40 C.F.R. §§ 260.10, 261.31 and 261.33).

32. On November 19, 1980, Respondent submitted to EPA a Part A for the Morgantown Facility. Respondent stated in this Part A that it generated F001, U133, U188, U210, U226 wastes and hazardous waste bearing the EPA hazardous waste number D002. The process code information that Respondent submitted in this Part A indicated that Respondent stored F001, U133, U188, U210, U226 wastes and hazardous waste bearing the EPA hazardous waste number D002 in tanks; treated F001, U133, U188, U210 and U226 wastes by incineration; and treated hazardous waste in tanks bearing the EPA hazardous waste number D002.

33. On January 14, 1981, EPA acknowledged the Notification referred to in Paragraph 31 above and assigned the Morgantown Facility the EPA identification number MDD 053 936 464.

34. On January 24, 1986, Respondent submitted to EPA a revised Notification for the Morgantown Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a burner of hazardous waste fuel in a utility boiler and a generator of hazardous waste bearing the EPA hazardous waste numbers F001 and F003.

35. On February 28, 1986, Respondent submitted to EPA a revised Notification for the Morgantown Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a burner of hazardous waste fuel and used oil fuel.

36. With respect to the Morgantown Facility, Respondent is a "generator" as that term is defined in COMAR § 10.51.01.03.B (40 C.F.R. § 260.10).

37. With respect to the Morgantown Facility, Respondent is an "owner" or "operator" as those terms are defined in COMAR §§ 10.51.01.03B(49) and (48), respectively (40 C.F.R. § 260.10).

38. The Morgantown Facility is an "existing hazardous waste management facility" as that term is defined in COMAR § 10.51.01.03B(18) (40 C.F.R. § 260.10).

39. On August 18, 1980, Respondent submitted to EPA a Notification for the Chalk Point Facility pursuant to Section 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a generator and the Chalk Point Facility as a treatment, storage and disposal facility of hazardous waste bearing the following EPA hazardous waste numbers: F001, U007, U133, U210, U019, U220 and U226. Each of these wastes is a "hazardous waste" as that term is defined in COMAR §§ 10.51.03B, 10.51.02.15 and 10.51.17F (40 C.F.R. §§ 260.10, 261.31 and 261.33).

40. On November 19, 1980, Respondent submitted to EPA a Part A for the Chalk Point Facility. Respondent stated in this Part A that it generated F001, U007, U019, U210, U220, U226, U122, U133 wastes and hazardous waste bearing the EPA hazardous waste number D002. The process code information that Respondent submitted in this Part A indicated that Respondent stored F001, U007, U019, U210, U220, U226, U133 wastes and hazardous waste bearing the EPA hazardous waste number D002 in tanks; stored U122 waste in containers; treated F001, U007, U019, U210, U220, U226 and U133 wastes by incineration; and treated U122 waste and hazardous waste bearing the EPA hazardous waste number D002 in tanks.

41. On January 14, 1981, EPA acknowledged the Notification referred to in Paragraph 39 above and assigned the Chalk Point Facility the EPA identification number MDD 000 731 570.

42. In a February 24, 1984 letter to the Maryland Department of Environment ("MDE"), Respondent requested the withdrawal of its Part A for the Chalk Point Facility.

43. On January 24, 1986, Respondent submitted to EPA a revised Notification for the Chalk Point Facility pursuant to § 3010(a) of RCRA, 42 U.S.C. § 6930(a). In the Notification, Respondent identified itself as a burner of hazardous waste fuel in a utility boiler and a generator of hazardous waste bearing the hazardous waste EPA numbers F001 and F005.

44. With respect to the Chalk Point Facility, Respondent is a "generator" as that term is defined in COMAR § 10.51.01.03B(24) (40 C.F.R. § 260.10).

45. 40 C.F.R. Part 268 restricts the land disposal of certain wastes (hereafter land disposal restricted waste or LDR waste). Certain provisions of the Land Disposal Restrictions regulations set forth at 40 C.F.R. Part 268 apply to generators of hazardous waste and owners and operators of hazardous waste treatment, storage and disposal facilities. See, 40 C.F.R. § 268.1(b).

46. On November 20, 1989, representatives of the DCRA conducted an inspection at the Benning Road Facility and detected violations of the DCMR and the Federal hazardous waste management regulations.

47. On December 4, 1989, the DCRA issued a Notice of Violation ("NOV") to Respondent for violations detected at the inspection of its Benning Road Facility referenced in Paragraph 46 above.

48. On June 27, 1991, EPA issued Respondent a letter requiring information pursuant to Section 3007 of RCRA, 42 U.S.C. § 6927.

COUNT I

49. The allegations of Paragraphs 1 through 48 of this Complaint are incorporated herein by reference.

50. 40 C.F.R. § 268.7(a)(1) provides that if a generator determines that it is managing a restricted waste under 40 C.F.R. Part 268 and the waste does not meet the applicable treatment standards set forth in 40 C.F.R. Part 268, Subpart D or exceeds the applicable prohibition levels set forth in 40 C.F.R. § 268.32 or RCRA Section 3004(d), then with each shipment of waste the generator must notify the treatment or storage facility in writing of the appropriate treatment standards set forth in 40 C.F.R. Part 268, Subpart D and any applicable prohibition levels set forth in 40 C.F.R. § 268.32 or RCRA Section 3004(d).

51. 40 C.F.R. § 268.7(a)(2) provides that if a generator determines that it is managing a restricted waste under 40 C.F.R. Part 268, and determines that the waste can be land disposed without further treatment, then with each shipment of waste it must submit, to the treatment, storage or land disposal facility, a notice and a certification stating that the waste meets the applicable treatment standards set forth in 40 C.F.R. Part 268, Subpart D and the applicable prohibition levels set forth in 40 C.F.R. § 268.32 or RCRA Section 3004(d).

52. Based on their examination of documents, DCRA representatives determined that the Respondent did not furnish written notifications and/or certifications to each treatment, storage or disposal facility receiving the Benning

Road Facility's, the Buzzard Point Facility's, the Potomac River Facility's, the Morgantown Facility's and the Chalk Point Facility's land disposal restricted waste.

53. In the June 27, 1991 RCRA Section 3007 information request letter referred to in Paragraph 48 above, EPA required that Respondent furnish copies of all written notifications and/or certifications which accompanied each shipment of Respondent's land disposal restricted hazardous waste since November 8, 1986 from the Benning Road Facility, the Potomac River Facility, the Morgantown Facility and the Chalk Point Facility.

54. In response to EPA's June 27, 1991 RCRA Section 3007 request referred to in Paragraphs 48 and 53 above, on July 12 and 17, 1991, Respondent submitted to EPA all paperwork which accompanied its off-site shipments from the Benning Road Facility, the Potomac River Facility, the Morgantown Facility and the Chalk Point Facility of hazardous waste restricted from land disposal. Respondent's submissions did not include the required written notification and/or certification for each and all of the off-site shipments of hazardous wastes referred to in Paragraphs 55, 59, 63, 67, 71 and 75 below.

55. Respondent sent the following shipments of LDR waste from the Benning Road Facility to the Morgantown Facility:

Manifest #	Waste Code	Waste Type	Shipment Date
MDC 0192856	F001	solvent	8-22-88
MDC 0192862	F001	solvent	11-7-88
MDC 0192878	F001	solvent	2-18-89
MDC 0192879	F001	solvent	2-19-89
MDC 0192911	F001	solvent	9-7-89
MDC 0192912	F001	solvent	9-21-89
MDC 0192913	F001	solvent	10-2-89

56. At the time each shipment described in Paragraph 55 above was shipped off-site, land disposal restrictions were applicable to F001 solvent waste, pursuant to 40 C.F.R. § 268.30.

57. Respondent violated 40 C.F.R. § 268.7(a)(1) and/or (2) by failing to provide the required written notifications and/or certifications to the treatment, storage or disposal facility

that received the off-site shipments of land disposal restricted wastes referred to in Paragraph 55 above.

COUNT II

58. The allegations of Paragraphs 1 through 57 of this Complaint are incorporated herein by reference.

59. Respondent sent the following shipments of LDR waste from the Benning Road Facility to ENSCO, Incorporated, American Oil Road, El Dorado, Arkansas:

Manifest #	Waste Code	Waste Type	Shipment Date
AR 096980	F001	solvent	3-9-87
AR 096985	F005	solvent	3-9-87

60. At the time each shipment described in Paragraph 59 above was shipped off-site, land disposal restrictions were applicable to F001 and F005 solvent wastes, pursuant to 40 C.F.R. § 268.30.

61. Respondent violated 40 C.F.R. § 268.7(a)(1) and/or (2) by failing to provide the required written notifications and/or certifications to the treatment, storage or disposal facility that received the off-site shipments of land disposal restricted wastes referred to in Paragraph 59 above.

COUNT III

62. The allegations of Paragraphs 1 through 61 of this Complaint are incorporated herein by reference.

63. Respondent sent the following shipments of LDR waste from the Buzzard Point Facility to the Benning Road Facility:

Manifest #	Waste Code	Waste Type	Shipment Date
PEPT 890003	F001/F003/ F004/F005	solid	4-26-89
PEPT 890004	F005	solid	4-27-89

64. At the time each shipment described in Paragraph 63 above was shipped off-site, land disposal restrictions were applicable

to F001, F003, F004 and F005 solid/debris wastes, pursuant to 40 C.F.R. § 268.30.

65. Respondent violated 40 C.F.R. § 268.7(a)(1) and/or (2) by failing to provide the required written notifications and/or certifications to the treatment, storage or disposal facility that received the off-site shipments of land disposal restricted wastes referred to in Paragraph 63 above.

COUNT IV

66. The allegations of Paragraphs 1 through 65 of this Complaint are incorporated herein by reference.

67. Respondent sent the following shipments of LDR waste from the Potomac River Facility to the Benning Road Facility:

Manifest #	Waste Code	Waste Type	Shipment Date
PEPC 880003	F001/F003/ F004/F005	solid & debris	12-29-88
PEPC 890002	F001/F003/ F004/F005	solid & debris	1-11-89
PEPC 890004	F001/F003/ F004/F005	solid	2-16-89
PEPC 890005	F001/F003/ F004/F005	solvent	2-16-89

68. At the time each shipment described in Paragraph 67 above was shipped off-site, land disposal restrictions were applicable to F001, F003, F004 and F005 (solvent and solid/debris) wastes, pursuant to 40 C.F.R. § 268.30.

69. Respondent violated 40 C.F.R. § 268.7(a)(1) and/or (2) by failing to provide the required written notifications and/or certifications to the treatment, storage or disposal facility that received the off-site shipments of land disposal restricted wastes referred to in Paragraph 67 above.

COUNT V

70. The allegations of Paragraphs 1 through 69 of this Complaint are incorporated herein by reference.

71. Respondent sent the following shipments of LDR waste from the Morgantown Facility to the Benning Road Facility:

Manifest #	Waste Code	Waste Type	Shipment Date
MDC 0118224	F001/F003/ F004/F005	solvent	8-19-88
MDC 0118333	F001/F003/ F004/F005	solvent	8-19-88
MDC 0118339	F001/F003/ F004/F005	solvent	10-11-88
MDC 0118257	F001/F003/ F004/F005	solid & debris	11-28-88
MDC 0118258	F001/F003/ F004/F005	solid	12-7-88
MDC 0118262	F001/F003/ F004/F005	solid & debris	1-25-89
MDC 0118266	F001/F003/ F004/F005	solid & debris	2-14-89

72. At the time each shipment described in Paragraph 71 above was shipped off-site, land disposal restrictions were applicable to F001, F003, F004 and F005 (solvent and solid/debris) wastes, pursuant to 40 C.F.R. § 268.30.

73. Respondent violated 40 C.F.R. § 268.7(a)(1) and/or (2) by failing to provide the required written notifications and/or certifications to the treatment, storage or disposal facility that received the off-site shipments of land disposal restricted wastes referred to in Paragraph 71 above.

COUNT VI

74. The allegations of Paragraphs 1 through 73 of this Complaint are incorporated herein by reference.

75. Respondent sent the following shipments of LDR waste from the Chalk Point Facility to the Benning Road Facility:

Manifest #	Waste Code	Waste Type	Shipment Date
MDC 0118350	F001/F003/ F004/F005	solid	11-10-88
MDC 0118270	F001/F003/ F004/F005	solid	1-12-89
MDC 0118273	F001/F003/ F004/F005	solid	2-22-89

76. At the time each shipment described in Paragraph 75 above was shipped off-site, land disposal restrictions were applicable to F001, F003, F004 and F005 solid wastes, pursuant to 40 C.F.R. § 268.30.

77. Respondent violated 40 C.F.R. § 268.7(a)(1) and/or (2) by failing to provide the required written notifications and/or certifications to the treatment, storage or disposal facility that received the off-site shipments of land disposal restricted wastes referred to in Paragraph 75 above.

COUNT VII

78. The allegations of Paragraphs 1 through 77 of this Complaint are incorporated herein by reference.

79. VHWMR § 5.03.06 (40 C.F.R. § 262.20(b)) provides that the generator shall identify on each manifest all subsequent transporters and the "designated facility".

80. VHWMR § 2.42 (40 C.F.R. § 260.10) provides that a "designated facility" is a hazardous waste treatment, storage or disposal facility which has received a permit from EPA, the Commonwealth of Virginia, or another State with an authorized hazardous waste program or which qualifies for interim status (see VHWMR § 11.03), in the opinion of the applicable aforementioned authority, and has been designated to receive a specific hazardous waste shipment.

81. On March 1, 1990, Respondent submitted to DCRA a letter with copies of manifests for the following off-site shipments of hazardous waste sent to the Benning Road Facility from the Potomac River Facility. This letter was submitted in response to the NOV referred to in Paragraph 47 above.

Manifest #	Waste Code	Shipment Date
PEPC 880003	F001/F003/F004/F005	12-29-88
PEPC 890002	F001/F003/F004/F005	1-11-89
PEPC 890004	F001/F003/F004/F005	2-16-89

82. As an attachment to the July 12 and 17, 1991 letters referenced in Paragraph 54 above, Respondent submitted the following manifests for off-site shipments of hazardous waste to the Benning Road Facility from the Potomac River Facility.

Manifest #	Waste Code	Shipment Date
PEPC 880001	F001/F003/F004/F005	9-30-88
PEPC 890005	F001/F003/F004/F005	2-16-89

83. The manifest identified the Benning Road Facility as the "designated facility" on each manifest referred to in Paragraphs 81 and 82 above.

84. The Benning Road Facility is not a "designated facility" as defined in VHWMR § 2.42 (40 C.F.R. § 260.10) because it does not have a permit or interim status to treat, store or dispose of hazardous waste as referenced in Paragraphs 8, 9 and 11 above.

85. Respondent violated VHWMR § 5.03.06 (40 C.F.R. § 262.20(b)) by failing to identify a "designated facility", as defined in VHWMR § 2.42 (40 C.F.R. § 260.10), on the manifests referred to in Paragraphs 81 and 82 above.

COUNT VIII

86. The allegations of Paragraphs 1 through 85 of this Complaint are incorporated herein by reference.

87. COMAR § 10.51.03.04A(2) (40 C.F.R. § 262.20(b)) provides that a generator shall designate on the manifest one facility which is permitted to handle the waste described on the manifest.

88. In the March 1, 1990 letter referenced in Paragraph 81 above, Respondent submitted copies of the following manifests for the off-site shipment of the hazardous waste sent to the Benning Road Facility from the Morgantown Facility.

Manifest #	Waste Code	Shipment Date
MDC 118266	F001/F003/F004/F005	2-14-89

89. In the July 12 and 17, 1991 response to the June 27, 1991 letter referenced in Paragraph 54 above, Respondent submitted the following manifests for off-site shipments of hazardous waste to the Benning Road Facility from the Morgantown Facility.

Manifest #	Waste Code	Shipment Date
MDC 0118207	F001/F003/F004/F005	6-8-88
MDC 0118223	F001/F003/F004/F005	6-28-88
MDC 0118325	F001/F003/F004/F005	7-15-88
MDC 0118224	F001/F003/F004/F005	8-19-88
MDC 0118327	F001/F003/F004/F005	8-19-88
MDC 0118328	F001/F003/F004/F005	8-19-88
MDC 0118333	F001/F003/F004/F005	8-19-88
MDC 0118329	F001/F003/F004/F005 & F005	9-19-88
MDC 0118331	F001/F003/F004/F005 & F005	10-5-88
MDC 0118338	F001/F003/F004/F005 & F005	10-11-88
MDC 0118339	F001/F003/F004/F005	10-11-88
MDC 0118340	F001/F003/F004/F005	10-24-88
MDC 0118257	F001/F003/F004/F005	11-28-88
MDC 0118258	F001/F003/F004/F005	12-7-88
MDC 0118262	F001/F003/F004/F005	1-25-89

90. The Benning Road Facility does not have a permit or interim status to treat, store or dispose of hazardous waste as referenced in Paragraphs 8, 9 and 11 above.

91. Respondent violated COMAR § 10.51.03.04A(2) (40 C.F.R. § 262.20(b)) by failing to designate on the manifests, referred to in Paragraphs 88 and 89 above, a facility that is permitted to handle the waste described on such manifests.

COUNT IX

92. The allegations of Paragraphs 1 through 91 of this Complaint are incorporated herein by reference.

93. In the March 1, 1990 letter referenced in Paragraph 81 above, Respondent submitted copies of the following manifests for the off-site shipment of the hazardous waste sent to the Benning Road Facility from the Chalk Point Facility.

Manifest #	Waste Code	Shipment Date
MDC 0118273	F001/F003/F004/F005	2-22-89

94. In the July 12 and 17, 1991 response to the June 27, 1991 letter referenced in Paragraph 54 above, Respondent submitted the following manifests for off-site shipments of hazardous waste to the Benning Road Facility from the Chalk Point Facility.

Manifest #	Waste Code	Shipment Date
MDC 0046955	F001	1-9-87
MDC 0046957	F001	3-12-87
MDC 0046956	F001	4-14-87
MDC 0046958	F001	5-20-87
MDC 0118185	F001/F003/F004/F005	4-18-88
MDC 0118192	F001/F003/F004/F005	8-19-88
MDC 0118348	F001/F003/F004/F005	10-24-88
MDC 0118350	F001/F003/F004/F005	11-10-88
MDC 0118270	F001/F003/F004/F005	1-12-89

95. The Benning Road Facility does not have a permit or interim status to treat, store or dispose of hazardous waste as referenced in Paragraphs 8, 9 and 11 above.

96. Respondent violated COMAR § 10.51.03.04A(2) (40 C.F.R. § 262.20(b)) by failing to designate on the manifests referred to in Paragraphs 93 and 94 above, a facility that is permitted to handle the waste described on such manifests.

COUNT X

97. The allegations of Paragraphs 1 through 96 of this Complaint are incorporated herein by reference.

98. 20 DCMR § 4003 (40 C.F.R. § 262.20(b)) provides that a generator must designate on the manifest a facility which is permitted to handle the waste described on the manifest.

99. In the March 1, 1990 letter referenced in Paragraph 81 above, Respondent submitted copies of the following two (2) manifests for the off-site shipments of hazardous waste sent to the Benning Road Facility from the Buzzard Point Facility.

Manifest #	Waste Code	Shipment Date
PEPT 890003	F001/F003/F004/F005	4-26-89
PEPT 890004	F005	4-27-89

100. The Benning Road Facility does not have a permit or interim status to treat, store or dispose of hazardous waste as referenced in Paragraphs 8, 9 and 11 above.

101. Respondent violated 20 DCMR Section 4003 (40 C.F.R. § 262.20(b)) by failing to designate on the manifests referenced in Paragraph 99 above a facility which is permitted to handle the waste described on the manifest.

COUNT XI

102. The allegations of Paragraphs 1 through 101 of this Complaint are incorporated herein by reference.

103. Section 3005 of RCRA, 42 U.S.C. § 6925 and 20 D.C.M.R. §§ 4000.1(b) and 4007.2(d)-(h) (40 C.F.R. § 270.1(b)), with certain exceptions not relevant here, provides that after November 19, 1980, treatment, storage or disposal of hazardous waste by any person who has not applied for or received a RCRA permit is prohibited.

104. Respondent's records revealed that the Respondent began storing shipments of hazardous waste in containers on-site at its Benning Road Facility on December 29, 1988. At least seven (7) shipments of F005 or F001/F003/F004/F005 hazardous waste have been stored as detailed below:

Manifest #	**Dates of Storage**	**# Days stored on-site**
PEPC 880003	12-29-88 to 2-10-89	43
PEPC 890002	1-11-89 to 2-10-89	30
PEPC 890004	2-16-89 to 3-10-89	22
MDC 118266	2-14-89 to 3-10-89	24
MDC 0118273	2-22-89 to 3-10-89	16
PEPT 890003	4-26-89 to 1-19-90	268
PEPT 890004	4-27-89 to 1-19-90	267

105. Respondent does not have a permit or interim status to store hazardous waste at its Benning Road Facility, as referenced in Paragraphs 8, 9 and 11 above.

106. Respondent violated Section 3005 of RCRA, 42 U.S.C. § 6925 and 20 DCMR §§ 4000.1(b) and 4007.2(d)-(h) (40 C.F.R. § 270.1(b)) by storing the seven (7) shipments of hazardous waste on-site at its Benning Road Facility without a permit or interim status.

III. COMPLIANCE ORDER

Pursuant to the authority of Section 3008(a) of RCRA, 42 U.S.C. § 6928(a), Respondent is hereby ordered to:

1. Within ten (10) calendar days following receipt of this Complaint, furnish written notifications and/or certifications required under 40 C.F.R. § 268.7(a), as applicable, to each treatment, storage or disposal facility that received Respondent's land disposal restricted waste listed above in Paragraphs 55, 59, 63, 67, 71 and 75 of this Complaint above but did not receive such written notification and/or certification with the original shipment of such wastes. Include with the written notification and/or certification a written explanation informing the facilities that such documentation is being transmitted under a Compliance Order issued to Respondent by EPA.

2. At all times following receipt of this Complaint, furnish to each treatment, storage and disposal facility which receives a shipment of the Respondent's waste, a written notification and/or certification required for such shipments of land disposal restricted waste under 40 C.F.R. §§ 268.7(a)(1) and (2), as applicable.

3. At all times following receipt of this Complaint, designate on all manifests a facility that is permitted to handle the waste described on the manifest, in accordance with COMAR § 10.51.03.04A(2), VHWMR § 5.03.06 and 20 DCMR § 4003 (40 C.F.R. § 262.20(b)).

4. Immediately following the receipt of this Complaint, cease storing hazardous waste at the Benning Road Facility without a permit or interim status, as required by Section 3005 of RCRA, 42 U.S.C. § 6925 and 20 DCMR §§ 4000.1(b) and 4007.2(d)-(h) (40 C.F.R. § 270.1(b)).

5. Within thirty (30) calendar days following receipt of this Complaint, submit to DCRA for approval and to EPA a complete closure plan for the areas of the Benning Road Facility which were used for the storage of the seven (7) shipments of hazardous waste referenced in Paragraph 104 of this Complaint above, as required by 20 DCMR §§ 4006 and 4006.13 (40 C.F.R. §§ 265.111 and 265.112).

6. Upon receipt of approval of the closure plan, Respondent shall implement such plan in accordance with the requirements and schedule set forth therein. If Respondent's plan is disapproved, within thirty (30) calendar days following Respondent's receipt of the written disapproval, Respondent shall revise its plan to correct the deficiencies and resubmit the plan to DCRA for approval and to EPA.

7. Within sixty (60) calendar days following receipt of this Complaint, submit to EPA and DCRA proof that financial assurance for closure has been established for the Benning Road Facility as specified in 20 DCMR §§ 4006 and 4006.17 (40 C.F.R. § 265.143).

8. Within sixty (60) calendar days following receipt of this Complaint, submit to EPA and DCRA proof that liability insurance for the Benning Road Facility has been obtained as specified in 20 DCMR §§ 4006 and 4006.18 (40 C.F.R. §§ 265.147(a), (b) and (e).

9. Within ninety (90) calendar days following receipt of this Complaint, Respondent must submit a report to EPA certifying that

compliance has been achieved with Paragraphs 1 through 8 of the Compliance Order of this Complaint.

Any violation of this Compliance Order or further violations of RCRA Subtitle C may subject Respondent to further administrative, civil and/or criminal enforcement, including the imposition of civil penalties and criminal enforcement, including imprisonment, as provided in Section 3008 of RCRA, 42 U.S.C. § 6928.

IV. CIVIL PENALTY ASSESSMENT

Pursuant to Sections 3008(a)(3) and (g) of RCRA, 42 U.S.C. §§ 6928(a)(3) and (g), EPA proposes the assessment of a civil penalty in the amount of **$453,000** against Respondent for the following violations:

Count I:
Failure to furnish treatment, storage and disposal facilities with written notifications and/or certifications in accordance with 40 C.F.R. § 268.7(a)(1) and/or (2) for seven (7) shipments from the Benning Road Facility to the Morgantown Facility.

Failure to provide the receiving treatment, storage and disposal facilities with written notifications and/or certifications makes it difficult or impossible for the receiving treatment, storage and disposal facilities to identify the waste as land disposal restricted (LDR). This lack of knowledge of the waste by the treatment, storage and disposal facilities could lead to improper treatment, storage, or disposal of the LDR waste. In this case however, it was likely that the treatment, storage and disposal facilities have been alerted to the fact that they were receiving and handling LDR waste of a specific type since most of the shipments were intra-company shipments for which the Respondent maintained a central tracking system. EPA possesses evidence that indicates that the Respondent violated this LDR requirement for a total of twenty-five (25) separate incidents at its Benning Road Facility, Buzzard Point Facility, Potomac River Facility, Morgantown Facility and Chalk Point Facility over a period beginning on March 9, 1987 until September 7, 1989.

Total Penalty for Count I: **$66,500**

Count II:
Failure to furnish treatment, storage and disposal facilities with written notifications and/or certifications in accordance with 40 C.F.R. § 268.7(a)(1) and/or (2) for two (2) shipments from the Benning Road Facility to ENSCO, Incorporated

(See Count I)

Total Penalty for Count II: **$19,000**

Count III:
Failure to furnish treatment, storage and disposal facilities with written notifications and/or certifications in accordance with 40 C.F.R. § 268.7(a)(1) and/or (2) for two (2) shipments from the Buzzard Point Facility to the Benning Road Facility.

(See Count I)

Total Penalty for Count III: **$19,000**

Count IV:
Failure to furnish treatment, storage and disposal facilities with written notifications and/or certifications in accordance with 40 C.F.R. § 268.7(a)(1) and/or (2) for four (4) shipments from the Potomac River Facility to the Benning Road Facility.

(See Count I)

Total Penalty for Count IV: **$38,000**

Count V:
Failure to furnish treatment, storage and disposal facilities with written notifications and/or certifications in accordance with 40 C.F.R. § 268.7(a)(1) and/or (2) for seven (7) shipments from the Morgantown Facility to the Benning Road Facility.

(See Count I)

Total Penalty for Count V: **$66,500**

Count VI:
Failure to furnish treatment, storage and disposal facilities with written notifications and/or certifications in accordance with 40 C.F.R. § 268.7(a)(1) and/or (2) for three (3) shipments from the Chalk Point Facility to the Benning Road Facility.

(See Count I)

Total Penalty for Count VI: **$28,500**

Count VII:
Failure to identify a designated facility, as defined in VHWMR § 2.42, on the manifests for five (5) shipments sent to the Benning Road Facility from the Potomac River Facility in accordance with VHWMR § 5.03.06 (40 C.F.R. § 262.20(b)).

Failure to designate on each manifest a facility which is permitted to handle the treatment, storage or disposal of the waste on the manifest impedes the regulatory agency(s)' ability to track the waste from "Cradle to Grave". Respondent incorrectly listed the Benning Road Facility as the designated facility on a total of thirty-three (33) manifests for: five (5) shipments of waste sent off-site from its Potomac River Facility, sixteen (16) shipments of waste sent off-site from its Morgantown Facility, ten (10) shipments of waste sent off-site from its Chalk Point Facility and two (2) shipments of waste sent off-site from its Buzzard Point Facility. Evidence obtained by the EPA as a result of a State inspection conducted by DCRA and as a response to the 3007 information request indicates that the Respondent implemented an internal manual waste tracking system for the facilities that does not meet the requirements of the regulations, although the system shows that the waste was eventually disposed of off-site at permitted treatment, storage and disposal facilities. Also, the evidence indicates that the noncompliance with this regulation continued from September 30, 1988 to February 16, 1989.

Total Penalty for Count VII: **$2,500**

Count VIII:
Failure to designate on each manifest a facility which is permitted to handle the waste described on the manifests for sixteen (16) shipments sent to the Benning Road Facility from the Morgantown Facility in accordance with COMAR § 10.51.03.04A(2) (40 C.F.R. § 262.20(b)).

(See Count VII)

Total Penalty for Count VIII: **$8,000**

Count IX:
Failure to designate on each manifest a facility which is permitted to handle the waste described on the manifests for ten (10) shipments sent to the Benning Road Facility from the Chalk Point Facility in accordance with COMAR § 10.51.03.04A(2) (40 C.F.R. § 262.20(b)).

(See Count VII)

Total Penalty for Count IX: **$5,000**

Count X:
Failure to designate on each manifest a facility which is permitted to handle the waste described on the manifests for two (2) shipments sent to the Benning Road Facility from the Buzzard Point Facility in accordance with 20 DCMR § 4003 (40 C.F.R. § 262.20(b)).

(See Count VII)

Total Penalty for Count X: **$1,000**

Count XI:
Storing hazardous waste without a permit or having interim status in violation of Section 3005 of RCRA, 42 U.S.C. § 6925 and 20 DCMR §§ 4000.1(b) and 4007.1(b) (40 C.F.R. § 270.1(b)).

The intent of the RCRA Program is to track hazardous waste from the point of generation to the final disposal in an effort to prevent the potential for harm to public health and the environment. Respondent presented a harm to the integrity of the RCRA Program by storing seven (7) shipments of improperly manifested hazardous waste on-site without a permit or interim status on an intermitent basis at its Benning Road Facility over a 376 day period. However, it was determined that the total penalty would have sufficient deterrent impact if multi-day penalties were assessed only for the minimum 180 day period mandated by the penalty policy.

Total Penalty for Count XI: **$199,000**

The appropriateness of the proposed penalty is based upon facts as set forth in this Complaint; the nature, circumstances, extent and gravity of the violation; and the amended RCRA Civil Penalty Policy issued by EPA on October 26, 1990. Payment of the penalty shall be made by sending a cashier's check, payable to the United States of America, to:

Regional Hearing Clerk
EPA Region III
P.O. Box 360515
Pittsburgh, Pennsylvania 15251-6515

A copy of the check and transmittal letter shall be transmitted simultaneously to:

Regional Hearing Clerk (3RC00)
EPA Region III
841 Chestnut Street
Philadelphia, Pennsylvania 19107

V. OPPORTUNITY TO REQUEST A HEARING

Respondent has the right to request a hearing to contest any matter of law or material fact set forth in this Complaint and Compliance Order, the appropriateness of the assessed penalty, or the terms of this Compliance Order. To request a hearing, Respondent must file a written Answer to this Complaint with the Regional Hearing Clerk (3RC00), EPA Region III, 841 Chestnut Building, Philadelphia, Pennsylvania 19107, within thirty (30) days of receipt of this Complaint. The Answer must clearly and directly admit, deny or explain each of the factual allegations contained in this Complaint of which the Respondent has any knowledge. The Answer must contain: (1) a statement of the facts which constitute the grounds of defense; (2) a concise statement of the facts which Respondent intends to place at issue in the hearing; and (3) a request for a hearing, if Respondent desires a hearing. The denial of any material fact or the raising of any affirmative defense shall be construed as a request for a hearing. All material facts not denied in the Answer will be considered as admitted.

If Respondent fails to file a written Answer within thirty (30) days of receipt of this Complaint, such failure shall constitute an admission of all facts alleged in this Complaint and a waiver of Respondent's right to a hearing on such factual allegations. Failure to file a written Answer may result in the filing of a Motion for Default Order imposing the penalties herein and ordering compliance with the terms of this Compliance Order without further proceedings.

Any hearing requested by Respondent will be held at a location to be determined at a later date pursuant to 40 C.F.R. § 22.21(d). The hearing will be conducted in accordance with the provisions of the Administrative Procedures Act, 5 U.S.C. §§ 551-559 and the Consolidated Rules of Practice, 40 C.F.R. Part 22. A copy of these rules is attached.

VI. SETTLEMENT CONFERENCE

Complainant encourages settlement of the proceedings at any time after issuance of this Complaint if such settlement is consistent with the provisions and objectives of RCRA and HSWA. Whether or not a hearing is requested, Respondent may confer with this Complainant to discuss the allegations of this Complaint, the amount of the proposed civil penalty, and the terms of this Compliance Order. A request for settlement conference does not relieve the Respondent of its responsibility to file a timely Answer.

In the event settlement is reached, its terms shall be expressed in a written Consent Agreement prepared by Complainant, signed by the Parties, and incorporated into a Final Order signed by the Regional Administrator. The execution of such a Consent Agreement shall constitute a waiver of Respondent's right to a hearing on any issues of law, fact, discretion or the amount of any penalties agreed to in the Consent Agreement.

The staff attorney assigned to this case is Brian M. Nishitani. If you have any questions or wish to arrange an informal settlement conference, please contact Mr. Nishitani at (215) 597-2396 prior to the expiration of the thirty (30) day period following receipt of this Complaint. Once again, however, such a request for an informal conference does not relieve you of your responsibility to file an Answer within thirty (30) days following your receipt of this Complaint.

Date: 2/7/92

Bruce P. Smith
Bruce P. Smith, Associate Division Director
for RCRA Programs
Hazardous Waste Management Division

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ACKNOWLEDGEMENT OF NOTIFICATION OF REGULATED WASTE ACTIVITY
(VERIFICATION)

This is to acknowledge that you have filed a Notification of Regulated Waste Activity for the installation located at the address shown in the box below to comply with Section 3010 of the Resource Conservation and Recovery Act *(RCRA)*. Your EPA Identification Number for that installation appears in the box below. The EPA Identification Number must be included on all shipping manifests for transporting hazardous wastes; on all Annual Reports that generators of hazardous waste, and owners and operators of hazardous waste treatment, storage and disposal facilities must file with EPA; on all applications for a Federal Hazardous Waste Permit; and other hazardous waste management reports and documents required under Subtitle C of RCRA.

EPA I.D. NUMBER

DCD000819508 10/18/94

PEPCO BUZZARD GENERATING STATION
1ST & V STS SW
WASHINGTON , DC 20024
NIGUSSIE RETTA ENV ENG

INSTALLATION ADDRESS

1ST & V STS SW
WASHINGTON ,DC 20024

EPA Form 8700-12A (6-90)

Please print or type with ELITE type (12 characters per inch) in the unshaded areas only

Form Approved. OMB No. 2050-0028. Expires 9-30-92
GSA No. 0246-EPA-OT

Please refer to the *Instructions for Filing Notification* before completing this form. The information requested here is required by law (*Section 3010 of the Resource Conservation and Recovery Act*).

EPA

Notification of Regulated Waste Activity

United States Environmental Protection Agency

Date Received (For Official Use Only)

AUG 9 1994

I. Installation's EPA ID Number *(Mark 'X' in the appropriate box)*

[X] A. First Notification
[ ] B. Subsequent Notification (complete item C)

C. Installation's EPA ID Number: D C D 0 0 0 8 1 9 5 0 8

II. Name of Installation *(Include company and specific site name)*

PEPCO BUZZARD POINT GENERATING

III. Location of Installation *(Physical address not P.O. Box or Route Number)*

Street: 1ST. AND V. STREET S.W.

Street (continued):

City or Town: WASHINGTON | State: DC | ZIP Code: 20024-

County Code: | County Name:

IV. Installation Mailing Address *(See instructions)*

Street or P.O. Box: 1900 PENNSYLVANIA AVE N.W.

City or Town: WASHINGTON | State: DC | ZIP Code: 20068-

V. Installation Contact *(Person to be contacted regarding waste activities at site)*

Name (last): RETTA | (first): NIGUSSIE

Job Title: ENV. ENGINEER | Phone Number (area code and number): 202-872-3177

VI. Installation Contact Address *(See instructions)*

A. Contact Address: Location [ ] Mailing [X]

B. Street or P.O. Box: 1900 PENNSYLVANIA AVE N.W

City or Town: WASHINGTON | State: DC | ZIP Code: 20068-

VII. Ownership *(See instructions)*

A. Name of Installation's Legal Owner: POTOMAC ELECTRIC POWER COMPANY

Street, P.O. Box, or Route Number: 1900 PENNSYLVANIA AVENUE N.W.

City or Town: WASHINGTON | State: DC | ZIP Code: 20068-

Phone Number (area code and number): 202-872-3177

B. Land Type: P

C. Owner Type: P

D. Change of Owner Indicator: Yes [ ] No [ ]

(Date Changed) Month | Day | Year

Please print or type with ELITE type (12 characters per inch) in the unshaded areas only

Form Approved. OMB No. 2050-0028. Expires 9-30-92
GSA No. 0246-EPA-OT

ID - For Official Use Only

D C D 0 0 0 3 1 9 5 0 8

VIII. Type of Regulated Waste Activity *(Mark 'X' in the appropriate boxes. Refer to instructions.)*

A. Hazardous Waste Activity

1. Generator (See Instructions)
   - [ ] a. Greater than 1000kg/mo (2,200 lbs.)
   - [X] b. 100 to 1000 kg/mo (220 - 2,200 lbs.)
   - [ ] c. Less than 100 kg/mo (220 lbs.)
2. Transporter (Indicate Mode in boxes 1-5 below)
   - [ ] a. For own waste only
   - [ ] b. For commercial purposes

   Mode of Transportation
   - [ ] 1. Air
   - [ ] 2. Rail
   - [ ] 3. Highway
   - [ ] 4. Water
   - [ ] 5. Other - specify
3. [ ] Treater, Storer, Disposer (at installation) Note: A permit is required for this activity; see instructions.
4. Hazardous Waste Fuel
   - [ ] a. Generator Marketing to Burner
   - [ ] b. Other Marketers
   - [ ] c. Boiler and/or Industrial Furnace
     - [ ] 1. Smelter Deferral
     - [ ] 2. Small Quantity Exemption

     Indicate Type of Combustion Device(s)
     - [ ] 1. Utility Boiler
     - [ ] 2. Industrial Boiler
     - [ ] 3. Industrial Furnace
5. [ ] Underground Injection Control

B. Used Oil Fuel Activities

1. Off-Specification Used Oil Fuel
   - [ ] a. Generator Marketing to Burner
   - [ ] b. Other Marketer
   - [ ] c. Burner - indicate device(s) - Type of Combustion Device
     - [ ] 1. Utility Boiler
     - [ ] 2. Industrial Boiler
     - [ ] 3. Industrial Furnace
2. [ ] Specification Used Oil Fuel Marketer (or On-site Burner) Who First Claims the Oil Meets the Specification

IX. Description of Regulated Wastes *(Use additional sheets if necessary)*

A. Characteristics of Nonlisted Hazardous Wastes. Mark 'X' in the boxes corresponding to the characteristics of nonlisted hazardous wastes your installation handles. *(See 40 CFR Parts 261.20 - 261.24)*

1. Ignitable *(D001)*	2. Corrosive *(D002)*	3. Reactive *(D003)*	4. Toxicity Characteristic *(D000)*	(List specific EPA hazardous waste number(s) for the Toxicity characteristic contaminant(s))			
X			X	D006	D008	D009	

B. Listed Hazardous Wastes. (See 40 CFR 261.31 - 33. See instructions if you need to list more than 12 waste codes.)

1	2	3	4	5	6
7	**8**	**9**	**10**	**11**	**12**

C. Other Wastes. (State or other wastes requiring a handler to have an I.D. number. See instructions.)

1	2	3	4	5	6

X. Certification

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering the information, the information submitted is, to the best of my knowledge and belief, true, accurate, and complete. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.

Signature	Name and Official Title *(type or print)*	Date Signed
Nigussie Retta	NIGUSSIE RETTA; ENV. ENGINEER	08-01-94

XI. Comments

Note: Mail completed form to the appropriate EPA Regional or State Office. (See Section III of the booklet for addresses.)

Waste Activity	Type	RCRA Reg. Status	RCRA Reg. Desc.
Generator	2	R	______
TSD	______	______	______
Transporter	______	______	______

Mode of Transportation:
Air______ Rail______ Highway______ Water______ Other______

Burner/Blender ______

B Boiler and/or Industrial Furnace (BIF) only.
D BIF only; Smelter Deferral.
E BIF only; Small Quantity Exemption claimed.
N Not a Burner/Blender, Verified.
X Other Burner/Blender Activity.
Blank Unverified.

HWF Market to Burner______

X Code indicates that the handler is a generator engaged in marketing to burners of hazardous waste fuel activities.
Blank No activity.

HWF Other Market______

X Code indicates that the Handler is engaged in hazardous waste fuel marketing activities other than generator marketing to burner.

HWF Burner______

B Boiler and/or Industrial Furnace.
X Indication of activity.

OSO Market to Burner______

X Code indicates that the handler is a generator engaged in marketing to burners of off-spec. used oil fuel.

OSO Other Market______

X Code indicates that the Handler is engaged in marketing of off-spec. used oil fuel other than generator marketing tc burner (e.g., marketing to used oil refinery).

OSO Burner______

B Boiler and/or Industrial Furnace.
X Indication of Activity.

SO ACT:______

Code indicating that the handler is engaged in marketing of specification fuel oil activities.
B Boiler and/or Industrial Furnace.
X Indication of Activity.

Burner Types
Utility Boiler_____ Industrial Boiler_____ Ind. Furnace_____

Underground Injection Control______

X Code indicates that the Handler generates and/or treats, stores, or disposes of hazardous waste and has an injection well located at the installation.

Recycler:______

C Commercial
R Non-Commercial Recycler
N Not a Recycler, Verified
Blank Not a recycler, unverified.

RESOURCE CONSERVATION AND RECOVERY INFORMATION SYSTEM
MAINTENANCE FORM FOR EPA NOTIFICATION

EPA-ID# D C D 0 0 0 8 1 9 5 0 8 Date: 10-7-94

FACILITY NAME PePCO Buzzard Generating Station

New Facility Name

Name Change ______

Location of Installation

Street ______

City/Town ______ State ______ Zip 20024

County Code ______ County Name ______

Installation Mailing Address

Street ______

City/Town ______ State ______ Zip ______

Installation Contact

Last Name Retta First Nigussie

Job Title ENVi ENGi Phone # 202-872-3177

Street 1900 PENNSYLVANIA AVE NW

City/Town W State ______ Zip ______

Ownership

Name of Legal Owner ______

Street ______

City/Town ______ State ______ Zip ______

Phone # (202) 872-3177 Land Type P Owner Type P

Waste Codes

Delete Old Waste Codes	Add New Waste Codes
	D000 D001 D006 D008 D009

Updated in RCRIS by RR Date 10/13/94

H ST 10-18-94